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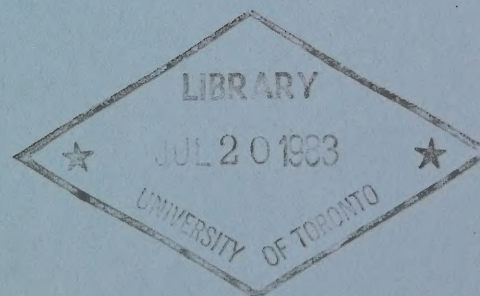
# NATIONAL ENERGY BOARD REASONS FOR DECISION

In the Matter of the Application Under  
Part IV of the National Energy Board Act  
(Tolls Application)

of

TransCanada PipeLines Limited

June 1983







NATIONAL ENERGY BOARD

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## Recitals and Appearances

IN THE MATTER OF the National Energy Board Act and  
the Regulations made thereunder; and

IN THE MATTER OF an application by TransCanada  
PipeLines Limited for certain orders respecting tolls under  
Sections 50, 51 and 53 of the National Energy Board Act  
and for certain orders under Section 53 of the Energy  
Administration Act, filed with the Board under File  
No. 1562-T1-16.

HEARD at Ottawa, Ontario on May 17, 18, 19, 20, 24, 25, 26, 27, 30, 31  
June 1, 2, 13, 14 and 15, 1983

### BEFORE:

L.M. Thur	)	Presiding Member
J.R. Jenkins	)	Member
R.B. Horner, Q.C.	)	Member

### APPEARANCES:

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D. McDermott	)	Independent Petroleum Association of Canada
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H.M. Kay	)	
E.B. McDougall	)	Dome Petroleum Limited
J. Smellie	)	
J. Hopwood, Q.C.	)	Foothills Pipe Lines (Yukon) Ltd., NOVA, AN ALBERTA CORPORATION and Pan-Alberta Gas Ltd.
Yvon Brisson	)	Gaz Inter-Cité Québec Inc.
M. Beaudin	)	
N. Roy	)	Gaz Métropolitain, inc.

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F. Kelton	)	and Central Gas Corporation Limited
D. Hart, Q.C.	)	Inco Energy Resources Ltd.
D.C. Simmonds	)	Interprovincial Pipe Line Limited
J.B. Ballem, Q.C.	)	Kanngaz Producers Ltd.
D. Love	)	Norcen Energy Resources Limited
M. Collins	)	Petro-Canada
M. Murray	)	
J. Hobbs	)	Saskatchewan Power Corporation
L. Martin	)	Société québécoise d'initiatives pétrolières
J.H. Farrell	)	The Consumers' Gas Company Ltd.
M.W. Boyle	)	Trans Mountain Pipe Line Company Ltd.
L.A. Leclerc	)	Trans Québec & Maritimes Pipeline Inc.
P. Gilchrist	)	Union Gas Limited
A.S. Hollingworth	)	Alberta Petroleum Marketing Commission
J. Pelrine	)	British Columbia Petroleum Corporation
A. Murray	)	
N.D. Shende	)	The Province of Manitoba
J.M. Johnson, Q.C.	)	The Minister of Energy for Ontario
E. Smith	)	
M.J. Veniot	)	The Province of Nova Scotia
J. Giroux	)	Le Procureur général du Québec
H. Wetston	)	National Energy Board
P. Barsalou	)	

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## Abbreviations

ACQ	- Annual Contract Quantity
AFUDC	- Allowance for Funds Used During Construction
AOI	- Authorized Overrun Interruptible
Applicant	- TransCanada PipeLines Limited
Board	- National Energy Board
CCA	- Capital Cost Allowance
CD	- Contract Demand
CO	- Construction Order
CPA	- Canadian Petroleum Association
CPI	- Consumer Price Index
Company	- TransCanada PipeLines Limited
Conference Board	- Conference Board of Canada
Consumers'	- The Consumers' Gas Company Ltd.
DCF	- Discounted Cash Flow
EAA	- Energy Administration Act
FDPS	- First Date Placed in Service
Foothills	- Foothills Pipe Lines (Yukon) Ltd.
GJ	- Gigajoule ( $10^9$ joules)
GMAP	- Gas Marketing Assistance Program
GPIS	- Gas Plant in Service
GPUC	- Gas Plant Under Construction
Gaz Métro	- Gaz Métropolitain, inc.
Great Lakes	- Great Lakes Gas Transmission Company
IPAC	- Independent Petroleum Association of Canada
IRR	- Investors' Required Rate of Return
MJ	- Megajoule ( $10^6$ joules)

NBSC	- North Bay Shortcut
NEB	- National Energy Board
NEB Act	- National Energy Board Act
NOVA	- NOVA, AN ALBERTA CORPORATION
PS	- Peaking Service
Pan-Alberta	- Pan-Alberta Gas Ltd.
SGS	- Small General Service
SOQUIP	- la Société québécoise d'initiatives pétrolières
Steelman Gas	- Steelman Gas Limited
TCPL, TransCanada	- TransCanada PipeLines Limited
TQM	- Trans Québec & Maritimes Pipeline Inc.
TSE	- Toronto Stock Exchange
TWS	- Temporary Winter Service
Union	- Union Gas Limited
August 1980 TCPL Reasons for Decision	- "National Energy Board Reasons for Decision in the Matter of the Application under Part IV of the National Energy Board Act (Rate Application) of TransCanada PipeLines Limited - August 1980"
July 1982 TCPL Reasons for Decision	- "National Energy Board Reasons for Decision in the Matter of the Application under Part IV of the National Energy Board Act (Tolls Application) of TransCanada PipeLines Limited - July 1982"
June 1983 TQM Reasons for Decision	- "National Energy Board Reasons for Decision in the Matter of the Application under Part IV of the National Energy Board Act (Toll Application) of Trans Québec & Maritimes Pipeline Inc. - June 1983"



## CHAPTER 1

### The Application

By an application dated 31 January 1983, as amended by an application dated 29 April 1983, TransCanada PipeLines Limited applied to the Board under Sections 50, 51 and 53 of the National Energy Board Act, for Orders fixing the just and reasonable tolls TransCanada may charge for or in respect of transportation services rendered to Saskatchewan Power Corporation, Consolidated Natural Gas Limited, Gaz Métropolitain, inc., ProGas Limited, and Sulpetro Limited and disallowing any existing tariffs or tolls or portions thereof that are inconsistent with the just and reasonable tolls so fixed, effective 1 August 1983.

TransCanada also applied under Section 53 of the Energy Administration Act ("EAA") and the Regulations made pursuant to Part III of the said Act, for Special and General Orders approving the price to be paid by the Applicant to acquire gas for removal from the Province of Alberta and revoking any previous Orders inconsistent therewith.

The application contained proposed tolls based on TransCanada's cost of service employing a base period of the 12 months ended 30 September 1982 and a test period of 12 months commencing 1 August 1983.

The Applicant requested that an amount of \$8,356,698, representing the difference for the month of August 1982 between the transportation tolls prescribed by the Board by Order TG-2-82 and the transportation rates prescribed by the Governor in Council in Regulations under the Energy Administration Act, be recovered by TransCanada in the test year.

TransCanada requested Orders for accounting and toll-making purposes to allow the recording in deferral accounts of the following items:

1. Amounts paid as a result of income tax reassessments by Revenue Canada.
2. The differences between the estimated costs and the actual costs in respect of the TQM transmission charges.
3. The difference between the estimated fixed charge revenues for the CD Demand Volumes as shown in Exhibit 111 (VJY-2) Final Revision and the actual amount of such revenues.

4. Amounts, if any, that TransCanada is unable to recover as a result of differences between its tolls, rates, prices and other charges established by a competent authority and the tolls set by the Board.
5. The differences, if any, between
  - (a) the actual cost of gas for company use and lost and unaccounted for volumes, and
  - (b) the estimated cost approved by the Board.

In response to the Federal Government's 6 and 5 restraint program, TransCanada also requested the postponement of recovery in tolls of certain costs attributed to the North Bay Shortcut facilities, subsequent to the approval of those costs by the Board, thus limiting the increase of its transportation cost of service for the current test year to 6.5 percent.

The Applicant proposed to record in a deferral account during the current test year those costs otherwise recoverable, to amortize that account over the three test years following the current test year, and to include in cost of service carrying charges computed on the unamortized balance of the account.

The application also contained a request for an order approving a new T-Service Tariff as proposed.

The aforementioned requests for the inclusion of amounts in various deferral accounts included a request for carrying charges, calculated as proposed at the authorized rate of return on rate base.

Further details of the application and the revised application are set out in the following chapters of these Reasons for Decision.

By Order No. RH-2-83 (Refer to Appendix I), the Board set TransCanada's application and amended application down for hearing.

The hearing commenced in Ottawa on 17 May 1983 and lasted 15 days during the months of May and June 1983, concluding on 15 June 1983.





## CHAPTER 2

### Rate Base

TransCanada's proposed rate base, as filed, was the average projected utility investment (exclusive of Alberta) for the test period from

1 August 1983 to 31 July 1984. For the reasons indicated hereafter, the Board has adjusted the test year rate base in the following manner:

Rate Base Test Year 1 August 1983 to 31 July 1984				
	Application <sup>(1)</sup>	Application As Revised <sup>(2)</sup>	NEB Adjustments	Authorized by NEB
Gross Plant	\$3,304,920,571	\$3,305,069,787	\$1,899,760	\$3,306,969,547
Accumulated Depreciation	(707,490,944)	(706,005,787)	(6,044,453)	(712,050,240)
Contributions in Aid of Construction	<u>(6,659,957)</u>	<u>(6,659,957)</u>	<u>-</u>	<u>(6,659,957)</u>
Net Gas Plant	\$2,590,769,670	\$2,592,404,043	\$(4,144,693)	\$2,588,259,350
Working Capital	83,685,931	83,685,931	(65,822)	83,620,109
Average Deferred Income Taxes	(75,868,922)	(75,868,922)	-	(75,868,922)
Other Deferred Costs	<u>2,478,341</u>	<u>2,247,929</u>	<u>(3,334,806)</u>	<u>(1,086,877)</u>
Total Rate Base	<u>\$2,601,065,020</u>	<u>\$2,602,468,981</u>	<u>\$(7,545,321)</u>	<u>\$2,594,923,660</u>

(1) Application dated 31 January 1983 as amended by TCPL application dated 29 April 1983.

(2) On 15 June 1983 TCPL filed exhibits #266 and 266A updating the application incorporating various changes based on matters raised during the hearing.

TABLE 1

## NEB ADJUSTMENTS TO PLANT

<u>Description</u>	<u>Unweighted Gross Plant Additions</u>	<u>Weighted Gross Plant Additions</u>	<u>Test Year Depreciation</u>	<u>Average Accumulated Depreciation</u>	<u>Adjustment to C.C.A.</u>
<u>Class "A" and "B" Additions</u>					
Unauthorized Capital Projects	\$(1,259,000)	\$(807,769)	\$(26,956)	\$8,776	\$(84,400)
Haley Station Meter Station	(25,000)	(25,000)	(875)	437	(5,000)
<u>AFUDC and Overhead</u>					
Decrease relating to CO's not yet approved by the Board	(72,803)	(47,219)	(1,993)	422	-
Decrease due to change in rate of return from 14.51 to 14.00 percent	-	(1,192,620)	(33,214)	32,674	-
<u>Retirements</u>					
Sale of Plant Facilities to NOVA	-	-	-	(1,816,087)	-
<u>Abandonment</u>					
Niagara Line Abandonment	<u>3,972,368</u>	<u>3,972,368</u>	<u>109,240</u>	<u>(4,270,675)</u>	<u>-</u>
TOTAL	<u>\$2,615,565</u>	<u>\$1,899,760</u>	<u>\$46,202</u>	<u>\$(6,044,453)</u>	<u>\$(89,400)</u>



## 2.1 Gross Plant

TransCanada projected its average gross plant for the test year to be \$3,305,069,787. The Board has adjusted this amount to \$3,306,969,547, an increase of \$1,899,760 representing the weighted average of gross plant adjustments, as shown in Table 1.

### 2.1.1 Unauthorized Capital Projects

TransCanada included \$807,769 as the weighted average gross plant additions in the test year for projects not yet authorized by the Board. As the Board does not permit the inclusion in rate base of projects which have not been approved under Part III of the NEB Act, the test year rate base has been adjusted to reflect the exclusion of the \$807,769 amount.

### 2.1.2 Haley Station Meter Station

The Board approved the construction of the Haley Station Meter Station with one meter run. When questioned during the hearing TransCanada confirmed that two meter runs had been installed and that the cost associated with the second meter run was \$25,000. Since this amount was included in the total gross plant addition of \$454,988 for the Haley Station Meter Station, the test year rate base has been adjusted to reflect the exclusion of the \$25,000 amount.

### 2.1.3 Allowance for Funds Used During Construction (AFUDC) and Capitalized Overhead

Unauthorized capital projects were excluded from the rate base as stated previously. Accordingly, the respective amounts of AFUDC and capitalized overhead, test year depreciation expense and average accumulated depreciation have been adjusted to reflect these exclusions.

The Company applied for a rate of return on rate base of 14.51 percent which was used in its calculations of AFUDC. Since the Board has authorized a rate of return on rate base of 14.00 percent, the AFUDC rate has been adjusted accordingly.

### 2.1.4 Abandonment of the Niagara Line

TransCanada has reduced its gross plant in the amount of \$3,972,368 to reflect the abandonment of the Niagara Line as an ordinary retirement. The Board has requested that TransCanada provide additional information respecting its application for abandonment of the Niagara Line. This request for information was outstanding at the conclusion of the hearing, and

consequently the Board has not yet made its decision on the application. Accordingly, gross plant has been increased by \$3,972,368 as outlined in Table 1 to reflect the current status of the application for abandonment of the Niagara Line.

### 2.1.5 FDPS Dates

The Board has a continuing concern about the forecasting of FDPS dates; TCPL is requested to provide, with its next tolls application, an update of the FDPS date study submitted in response to NEB Information Request No. 2 dated 22 April 1983, in a format similar to previous submissions.

## 2.2 Accumulated Depreciation

TransCanada projected its average accumulated depreciation for the test year to be \$706,005,787. The Board increased average accumulated depreciation by \$6,044,453 as described in Sections 2.2.1 and 2.2.2 below, and as outlined in Table 1.

### 2.2.1 Sale of Facilities to NOVA

TransCanada originally applied to the Board by letter dated 3 November 1982 for approval to account for the sale of facilities to NOVA as an ordinary retirement. The Board directed TransCanada in its letter of 26 April 1983 to treat the sale as an extraordinary retirement, and that the gain on disposal be deferred and brought forward for disposition in these proceedings.

In its current application the Company proposed to amortize the gain on the sale in the amount of \$1,816,087 as a credit to cost of service in the test year, and to deduct the average unamortized balance from rate base.

On review of the details of the transaction, the Board has decided that the gain on sale resulting from this extraordinary retirement should be accounted for in the same way as that resulting from an ordinary retirement, pursuant to Section 40(4) of the Gas Pipeline Uniform Accounting Regulations. Accordingly, the Board has adjusted average accumulated depreciation by the amount of \$1,816,087.

### 2.2.2 Other Adjustments

The Board, having increased gross plant as described in Section 2.1, has accordingly increased average accumulated depreciation (excluding the adjustment related to the sale of facilities to NOVA) by \$4,228,366.

## 2.3 Working Capital

The following table is a summary of the authorized working capital:

	<u>Application As Revised</u>	<u>NEB Adjustments</u>	<u>Authorized by NEB</u>
Cash	\$11,213,601	\$(65,822)	\$11,147,779
Materials and Supplies	28,829,819	-	28,829,819
Transmission Line Pack	39,901,466	-	39,901,466
Prepayments and Deposits	<u>3,741,045</u>	<u>-</u>	<u>3,741,045</u>
Total	<u>\$83,685,931</u>	<u>\$(65,822)</u>	<u>\$83,620,109</u>

### 2.3.1 Cash

In its application, TransCanada requested an amount equal to one-eleventh of annual operating and maintenance expenses net of gas related costs and non-cash items, as an allowance for cash working capital.

In support of its request for a cash working capital allowance, the Company submitted a time lag study determined on a basis similar to that provided in its 1982 submission but modified to include unamortized rate hearing expenses to arrive at lag days. The inclusion of rate hearing expenses increased the lag by 1.67 days.

The Applicant's witness stated that inclusion of rate hearing expenses in the determination of the average lag is justified because these costs are items of operation and maintenance expense; they are cash outlays; they are not recovered until a subsequent hearing; and no interest is earned on the funds for the period of time they are outstanding.

Interested parties did not offer any comments with respect to this item.

The Board was not convinced that it is appropriate to include rate hearing expenses in the determination of average lag in the calculation of the allowance for cash working capital.

Adjustments made by the Board to operation and maintenance expense result in an adjustment to cash working capital allowance as follows:

Net Operation and Maintenance Expense (per Applicant)	\$123,349,607
Reduction in Salaries and Benefits	(595,799)
Reduction in Transmission, Departmental and General Expenses	(369,587)
Reduction in Indirect Charges Allocated to Alberta and Non-Utility	<u>241,347</u>
Net Operation and Maintenance Expense (per NEB)	<u>\$122,625,568</u>
1/11 of Net Operation and Maintenance Expense (per NEB)	\$ 11,147,779
1/11 of Net Operation and Maintenance Expense (per Applicant)	<u>\$ 11,213,601</u>
NEB ADJUSTMENT	<u>\$ (65,822)</u>

### 2.3.2 Materials and Supplies

The test year level of materials and supplies was forecast to increase 26.5 percent over the base year level. TransCanada reported that \$1,082,595 of the test year level was due to material surplus to security. It was explained that this material represents good and useable material surplus from construction projects, which has a foreseeable future use either on future construction projects, as security stock, or for maintenance of the system. The Board has, therefore, accepted this level for the test year, but will be monitoring the amount of material surplus to security.

### 2.4 Average Deferred Income Taxes

The amount of deferred income taxes to be deducted in computing rate base shall consist of the balance of \$75,868,922 shown to be outstanding at the beginning of the test year in the Company's application.

### 2.5 Other Deferred Costs

#### 2.5.1 August 1982 Sales Revenue Deficiency

TransCanada included in Other Deferred Costs the average unamortized balance of the August 1982 sales revenue deficiency in the amount of \$4,242,850. The Board has decided not to allow the recovery of the deficiency (Refer to Sections 4.3.2 and 4.8.1), and accordingly has reduced Other Deferred Costs by \$4,242,850.

#### 2.5.2 Sale of Facilities to NOVA

TransCanada included in Other Deferred Costs the amount of \$908,044 representing the average unamortized balance of the Gain on Sale of Pipeline Facilities to NOVA. As the Board has decided that the gain on sale should be accounted for as that of an ordinary retirement, as described in Section 2.2.1, the amount of \$908,044 has been eliminated from Other Deferred Costs.





## CHAPTER 3 Rate of Return

In its current application TransCanada submitted that a deemed capitalization should form the basis for the determination of its allowed rate of return on rate base.

The applied-for capitalization and corresponding individual and overall requested rates of return are shown below.

### Deemed Average Capitalization and Requested Overall Rate of Return for the Test Year Ending 31 July 1984

	<u>Amount</u> (\$000)	<u>Ratio</u> %	<u>Cost</u> <u>Rate</u> %	<u>Cost</u> <u>Component</u> %
Debt				
- Funded	1,549,066	57.28	14.36	8.23
- Unfunded	<u>1,851</u>	<u>.07</u>	13.50	<u>.01</u>
TOTAL DEBT				
CAPITAL	1,550,917	57.35		8.24
Preferred				
Share				
Capital	341,970	12.65	10.44	1.32
Common				
Equity	<u>811,238</u>	<u>30.00</u>	16.50	<u>4.95</u>
TOTAL CAPI-				
TALIZATION	<u>2,704,125</u>	<u>100.00</u>		<u>14.51</u>

The implementation of a deemed capitalization for rate-making purposes was first proposed by TransCanada and accepted by the Board in 1980, subsequent to the Company having embarked upon a major program of diversification<sup>1</sup>. The deeming of capitalization is intended to ensure that the ratepayer is required to pay tolls which reflect a capitalization which is consistent with the business risks of the regulated pipeline operations and which incorporates those costs of capital used to finance utility assets. It is for this basic reason that the Board continues to approve the use of a deemed capitalization in relation to the Company's current application.

1. Prior to 1980, TransCanada's actual corporate or consolidated capitalization had been used as the basis for establishing the rate of return which the Company was allowed to earn on its rate base.

The total of the deemed capitalization amount comprises the sum of the Company's inside and outside Alberta rate bases and gas plant under construction.

The composition of this capitalization together with matters relating to the individual capital cost rates is discussed below.

### 3.1 Inclusion of GPUC in Capitalization

In its 1982 Reasons for Decision, the Board directed the Company to address the matter of including gas plant under construction (GPUC) in total capitalization at the time of its next toll application.

A witness for the Company took the position that investors view GPUC as no different from GPIS and that it is appropriate to include GPUC in the utility capitalization in order to provide for the recovery of the costs of financing this activity.

In the present application, the inclusion or exclusion of GPUC from the applied-for capitalization would leave the rate of return on rate base unchanged. This is largely due to the relatively small size of the Company's planned construction program for the test year.

Under the circumstances of this case, the Board approves the inclusion of GPUC in the total capitalization used for rate-making purposes.

### 3.2 Funded Debt

The funded debt component of the deemed capitalization represents the average principal of debt capital associated with the utility investments projected to be outstanding during the test year. This element consists of debt which has been specifically identified as utility-related. The Board approves the inclusion of this debt in the capital structure used for rate-making purposes.

The computation of the embedded cost rate of this debt is shown in Appendix VI of this decision. This cost rate has been computed on a basis consistent with that employed in the 1982 proceeding. The Board accepts the applied-for cost rate of 14.36 percent.

### 3.3 Unfunded Debt

This element of the total capitalization represents debt which the Company expects to be issued on a long-term basis during the course of the test year.<sup>(1)</sup>

TransCanada requested that this debt be costed at a rate of 13.5 percent. However, the testimony of its expert witness indicated that the prospective rate at which the Company could borrow during the test year lay in the upper half of the range of 12 to 13 percent which he considered as being applicable to high quality corporate credits.

During cross-examination, the expert witness for CPA/IPAC expressed the opinion that the rate at which TransCanada could presently borrow would lie more in the middle of this range and that the level of interest rates over the remainder of the test period would be little different from those now being observed.

Having regard to the evidence presented, the Board has decided to cost the unfunded debt component of the allowed capitalization at a rate of 12.5 percent.

### 3.4 Preferred Share Capital

The applied-for preferred share capital represents the average stated capital of preferred share issues associated with utility investments projected to be outstanding during the test year. The applicable cost rate was calculated in a manner consistent with prior applications. The Board accepts the applied-for cost rate of 10.44 percent.

### 3.5 Common Equity

#### 3.5.1 Common Equity Ratio

As indicated at the outset of this Chapter, the use of a deemed capital structure for rate-making purposes began following TransCanada's diversification into non-utility

activities. The dollar value of the elements of the deemed capitalization relating to funded debt and preferred shares currently represents the test year average amounts which can be traced, in effect, directly to the utility operations.

By contrast, the dollar value of the common equity component results from multiplying the total capitalization, which is pre-determined as the sum of the inside and outside Alberta rate bases and GPUC, by a common equity ratio. This dollar value is dependent therefore upon the selection of an appropriate value for the deemed common equity ratio.

In the current proceeding, TransCanada requested that a deemed common equity ratio of 30 percent be employed for rate-making purposes as opposed to the 28 percent ratio fixed by the Board in relation to the Company's 1982/83 test year.

In its final argument, TransCanada took the position that a return to the 30 percent deemed common equity ratio allowed the Company in 1980 and 1981 was warranted, essentially because of increases in the levels of business risks confronting the Company and improvements in the residual capitalization underpinning its non-utility activities. TransCanada also asserted that the proportions of debt and preferred stock contained in its applied-for capital structure are within the range of ratios approved by the Board in earlier cases; that the 30 percent applied-for equity ratio was at the low end of the range exhibited by other high quality Canadian utilities; and that the allowance of the 30 percent equity ratio would assist it in maintaining its relative credit standing in the capital markets.

In the Board's view, the evidence did not establish that a significant change in the business risk confronting the Company's utility operations has taken place since the 28 percent deemed common equity ratio was found to be appropriate by the Board in 1982.

With respect to the maintenance of an internal balance as between the debt and equity elements of the deemed capital structure, no evidence was presented that the use of a 28 percent deemed common equity ratio has adversely affected the financial flexibility or creditworthiness of TCPL's utility operations.

(1) This element is derived by subtracting funded debt, preferred share capital and common equity capital from the total capitalization.



In relation to the residual capitalization underpinning its non-utility activities <sup>(1)</sup>, the Company asserted that changes have taken place since the time of its last toll hearing which should remove any concern about the potential for cross-subsidization <sup>(2)</sup>. In this connection TCPL put forward financial data in relation to the 1982/83 and 1983/84 test years which indicated an increase in the amount of common equity underlying the non-utility activities. In addition, the Company submitted that the reasonableness of the capital structure supporting the non-utility activities should also be assessed in terms of its debt ratio. This approach effectively involves considering the deferred taxes contained in the non-utility capital structure as constituting equity or quasi-equity funding.

In this regard, the expert witness for one intervenor took the position that, while some weight should be given to deferred taxes in this context, the deferred tax and common equity elements were not, in his view, strictly additive. Also, several intervenors who addressed the matter in the current proceeding expressed concern that the potential for cross-subsidization has not been eliminated.

The Board was not convinced by the evidence presented by the Applicant that an increase in the common equity ratio from the level allowed in its previous decision is warranted. Accordingly, the Board maintains the 28 percent common equity ratio for the current test year.

(1) This capitalization is obtained by subtracting the dollar values of the various components of total capital deemed to apply to the utility operations from those actually existing in the Company's consolidated capitalization.

(2) Cross-subsidization may be implied to the extent that the ratepayer is required to reimburse the Company in respect of equity capital which in fact is required for non-utility activities. Such a view may be taken when the deduction of the common equity contained in the deemed utility capitalization from that present in the consolidated capitalization yields a residual to support the non-utility operations which is apparently less than that which would ordinarily be required to finance such riskier operations on a stand-alone basis.

### 3.5.2 Rate of Return on Common Equity

TransCanada applied for a rate of return on common equity of 16.50 percent, as compared to the currently allowed rate of 16.00 percent. In requesting this rate of return, the Company relied upon its expert's recommendation for a rate of 16.50 to 16.75 percent. In arriving at his recommendation, the Company's witness considered the equity risk premium, discounted cash flow (DCF) and comparable earnings approaches to estimating the cost of equity capital.

CPA and IPAC presented joint evidence in this matter and recommended a rate of return of 14.25 to 14.75 percent. In making this recommendation, their expert witness relied primarily on the DCF approach accompanied by an analysis of the appropriateness of the equity risk premium implicit in the result obtained from that technique.

The Ministry of Energy for Ontario also presented evidence in this matter and recommended a rate of return of 14.50 to 15.00 percent. In making this recommendation, their expert witness considered the equity risk premium, DCF and comparable earnings approaches to estimating the cost of equity capital.

Through his application of the equity risk premium approach the Company's witness estimated that the investors' required rate of return (IRR) in respect of TCPL lay in the range of 15.25 to 16 percent. This IRR level incorporated an equity risk premium of 2.5 to 3.0 percent over the witness' estimate of the long-term corporate debt rate that would be applicable to TCPL in 1983, which lay in the upper half of a range of 12.5 to 13.0 percent. The witness concluded from an analysis of historical studies that the long-term expected equity risk premium over expected long-term corporate debt returns lay in the range of at least 4 to 5 percent for the common equity market as a whole. The witness then judgmentally adjusted this range downwards to 2.5 to 3 percent in order to recognize the lower risk of utility stocks.

In applying the DCF technique, the witness elected not to rely upon an analysis of several years of historical data. This was due to his belief that investors' future growth expectations should not be based on inflated historical growth rates in earnings which were experienced in many cases during the periods he examined. The witness also pointed out that if the historical growth rates of periods such as 1982 in which earnings declined sharply were used, future growth expectations would be understated in many cases.

Thus, the witness essentially relied on market-derived illustrations of the IRR level of two utilities which he viewed as being proxies for TCPL on a stand-alone basis. The indicated IRR range for each of these companies based on the witness' analysis was 15.2 to 16.2 percent. The witness adopted the lower half of this range of 15 to 15.5 percent because it was his opinion that these two utilities would find it difficult to achieve growth much above 9 percent on their regulated operations. The witness then adjusted this IRR range to a level of 15.25 to 15.5 percent to reflect his view that TCPL was slightly more risky than the two utilities in question. The expert witness also arrived at another illustration of the DCF cost of capital through an examination of the major bank stocks in Canada. The indicated IRR level of 16.5 to 18.5 percent for these stocks confirmed in the witness' mind the conservative nature of his forecasted IRR levels for both TCPL and the other two utilities which he examined.

Having established his estimated IRR range for TCPL of 15.25 to 15.5 percent, the witness proceeded to express it in terms of what he viewed as an appropriate rate of return on book equity range of 16.75 to 17 percent by employing a market-to-book ratio of 1.2. The witness believed that a company such as TCPL should strive to maintain a market-to-book ratio of 1.2 to permit the attraction of equity capital without diluting existing shareholders' equity and impairing the financial integrity of the Company. The expert witness then adjusted this range downward by 25 basis points to a level of 16.5 to 16.75 percent to take into account his view that industrial companies are not earning adequate rates of return in 1983 and it will be at least 1984 before their returns become adequate again. This range implied market-to-book ratios ranging from 1.1 to 1.2.

With respect to the comparable earnings test, the witness set forth financial data on 21 high grade industrials which were selected on the basis of having been awarded a credit rating of A or better by either of the two Canadian bond rating services as well as having a broad market following. The witness stated that returns earned by such companies in 1982 were inadequate and even though earnings prospects for 1983 were much brighter, it was his view that these returns would also be inadequate. For 20 of the 21 industrials of his sample, the witness presented expected average and median rates of return on common book equity in 1983 of 13.51 and 14.05 percent respectively. In this regard, the witness took the view that, under current circumstances, utilities should be able to earn returns in 1983

above the average of those that can be expected by industrial companies of comparable investment risk.

The witness for CPA/IPAC arrived at his rate of return recommendation by first applying the DCF technique to a sample of 19 low risk non-utility companies. His estimate of the IRR for this group of companies lay in the range of 12.4 to 14.6 percent. Because of his view that the utility activities of established Canadian gas transmission companies are of lesser risk than the low risk non-utilities included in his sample, the witness adopted an IRR range of 13.6 to 14.1 percent as being relevant to the former companies. The witness then added 65 basis points to his IRR range to arrive at his final rate of return recommendation of 14.25 to 14.75 percent. He indicated that the additional 65 basis points were added to protect the investor in TCPL from a number of possible eventualities which might materialize during the test year and beyond, including the risk of dilution should new equity capital have to be raised under adverse market conditions.

During cross-examination, the witness noted that, after having made his final recommendation, the dividend yield for his sample of industrials had decreased slightly over the period March to May 1983. The witness pointed out that associated with the decrease of the indicated dividend yield from the level of 3.9 percent for the first three months of 1983 was probably a more optimistic prospect for growth on the part of investors.

With respect to the risk premium implicit in his final rate of return recommendation, the expert witness stated in his testimony that the spread between his recommendation and long-term Government of Canada bonds as of mid-April 1983 was 2.75 to 3.25 percent. It was noted during cross-examination that as of late May 1983, the same spread implicit in his final rate of return recommendation of 14.25 to 14.75 percent had increased to 2.95 to 3.45 percent. In this regard, the witness stated that, to the extent there has been a consistent downward movement in Government bond yields since his testimony was prepared, he would be more inclined to focus on the middle of his 14.25 to 14.75 percent range.

Citing the declines in long-term bond and dividend yields as well as what it felt to be the optimistic nature of the growth rate reflected in its witness' recommendation, CPA/IPAC took the position in final argument that the rate of return on common equity should be fixed at the lower end of the 14.25 to 14.75 percent range.

In his application of the equity risk premium approach, the expert witness for the



Ontario Ministry of Energy examined the historical risk premium achieved in different classes of stock investments on the Toronto Stock Exchange (TSE) over the yields of long-term Canada bonds during the past twenty years. The witness concluded from his analysis that investors in shares of risk comparable to that of the average stock traded on the TSE should expect a premium in the long run of 2 to 3 percent over the yields of long-term Canada bonds. The witness proceeded to add this premium to the long-term Canada bond yields of 11.50 percent available at the time he prepared his testimony to arrive at a cost of equity capital of 13.5 to 14.5 percent for a security of average market risk. The witness then adjusted this range downwards to a level of 12.96 to 14.36 percent in recognition of the lower risk associated with utilities when compared with the other sub-indices of the TSE.

With respect to the comparable earnings test, the witness reviewed historical returns on book equity for both utility and industrial company samples over the periods 1972 to 1981 and 1977 to 1981. However, essentially because of his belief that returns on book equity are highly distorted by accounting procedures in the current inflationary environment, the witness indicated that he had not placed reliance on this method in arriving at his recommendation.

With respect to the DCF approach, the witness reviewed the yields and historical growth rates of a sample of utilities, asserting that the greater stability inherent in utilities leads to greater predictability in the growth factor involved in the DCF approach. In arriving at his estimate of 13.70 to 14.11 percent, the witness calculated the average and median dividend yields and historical growth in earnings for his sample of utilities. The witness then deducted 2.2 percent from the expected growth rate because of his observation that the rate of inflation of 7.4 percent in place at the time he prepared his testimony was less than the average inflation rate over the past ten years by that amount. During cross-examination, the witness agreed that the dividend yield figures in his analysis would reflect to some extent the expectation of lower interest and inflation rates, but that he considered his 2.2 percent downward adjustment to be quite conservative in light of the currently forecasted rates of inflation of 6.0 to 6.5 percent.

Based on the results of the equity risk premium and DCF approaches, the witness concluded that the IRR level applicable to TCPL was 13 to 14 percent, unadjusted for market pressure. Applying a market-to-book ratio of 1.1 to this result to allow for market pressure led the witness to conclude that a range of 14.3 to 15.4

percent was appropriate. In recognition of a number of allowances incorporated in his overall analysis, the witness judgmentally adjusted this range to a level of 14.5 to 15.0 percent.

The determination of an appropriate rate of return on common equity involves the use of methods which are necessarily indirect and subject to the exercise of judgment. Based upon its consideration of all of the evidence presented and having regard to the decline in interest and inflation rates since the Company's last toll hearing as well as its decision in respect of the common equity ratio, the Board finds 15 percent to be a fair and reasonable rate of return on the common equity.

### 3.6 Rate of Return on Rate Base

Based upon its findings of this case, the Board has decided that a rate of return on rate base of 14.00 percent is fair and reasonable<sup>1</sup>. The derivation of this rate of return is provided below.

	<u>Amount</u> <u>(\$000)</u>	<u>Ratio</u> <u>%</u>	<u>Cost</u> <u>Rate</u> <u>%</u>	<u>Cost</u> <u>Component</u> <u>%</u>
Debt				
- Funded	\$1,549,066	57.45	14.36	8.25
- Unfunded	<u>50,501</u>	<u>1.87</u>	12.50	<u>0.23</u>
TOTAL DEBT				
CAPITAL	\$1,599,567	59.32		8.48
Preferred				
Share				
Capital	\$341,970	12.68	10.44	1.32
Common				
Equity	<u>755,042</u>	<u>28.00</u>	15.00	<u>4.20</u>
TOTAL* CAPI-	(2)			
TALIZATION	<u>\$2,696,579</u>	<u>100.00</u>		<u>14.00</u>

1. A comparison of the rates of return previously authorized, applied for and approved in this Decision is provided in Appendix V.

	<u>(\$000)</u>
2. Rate Base	
Outside Alberta	\$2,594,924
Alberta Rate Base	88,463
Gas Plant Under	
Construction	<u>13,192</u>
	<u>\$2,696,579</u>





## CHAPTER 4

### Transportation Cost of Service

TransCanada submitted its estimate of cost of service for a test year commencing 1 August 1983 and revised that estimate by a final update at the conclusion of the hearing.

Details of Board adjustments to allowable cost of service excluding return are provided in this chapter. Details of return are found in chapter 3. A summary of the allowable cost of service as authorized by the Board is shown below.

#### Transportation Cost of Service

##### Test Year 1 August 1983 to 31 July 1984

	<u>Application<sup>(1)</sup></u>	<u>Application<sup>(2)</sup> As Revised</u>	<u>NEB Adjustments</u>	<u>Authorized by NEB</u>
Development Costs				
Transferred to TQM	\$ -	\$(2,759,647)	\$ -	\$(2,759,647)
Transmission by Others	180,892,015	175,552,358	(4,594,842)	170,957,516
Operation and Maintenance	283,962,888	281,467,690	(6,324,104)	275,143,586
Depreciation	98,787,931	98,789,769	46,202	98,835,971
Amortization Gain on Sale of Pipeline Facilities to NOVA	-	(1,816,087)	1,816,087	-
Taxes Other than Income Taxes	31,173,926	30,315,223	-	30,315,223
Income Taxes	66,609,426	68,437,322	(6,813,636)	61,623,686
Miscellaneous Deferred Items	24,895,710	22,314,900	(5,632,612)	16,682,288
Other Operating Income	(5,490,048)	(5,490,048)	19,496	(5,470,552)
Miscellaneous Revenue	<u>(5,763,775)<sup>(3)</sup></u>	<u>(5,760,530)<sup>(3)</sup></u>	<u>16,225</u>	<u>(5,744,305)</u>
Total Transportation Cost of Service excluding Return	\$675,068,073	\$661,050,950	\$(21,467,184)	\$639,583,766
Return @ 14.43%	375,333,682			
Return @ 14.51%		377,618,249	(377,618,249)	-
Return @ 14.00%			<u>363,289,312</u>	<u>363,289,312</u>
Total Transportation Cost of Service	\$1,050,401,755	\$1,038,669,199	\$(35,796,121)	\$1,002,873,078
North Bay Shortcut Credit	<u>(57,017,350)</u>	<u>(57,765,561)</u>	<u>12,182,281</u>	<u>(45,583,280)</u>
Net Transportation Cost of Service	<u>\$993,384,405</u>	<u>\$980,903,638</u>	<u>\$(23,613,840)</u>	<u>\$957,289,798</u>

(1) Application dated 31 January 1983 as amended by TCPL application dated 29 April 1983.

(2) On 15 June 1983 TransCanada filed Exhibits #266 and 266A updating the application incorporating various changes based on matters raised during the hearing.

(3) Amounts restated by NEB to exclude Cost of Gas Sold component of Miscellaneous Revenue.

#### 4.1 North Bay Shortcut Credit

In response to the Federal Government's 6 and 5 restraint program, TransCanada has proposed that the Board approve a deferral of the recovery of certain approved costs attributed to the North Bay Shortcut facilities, thereby limiting the increase in its transportation cost of service for the current test year to 6.5 percent resulting in a toll increase in the Eastern Zone of 7.3 percent.

The TCPL proposal involves deferring recovery of an amount of after-tax return on rate base which, based on the application, would be \$57,765,561; and the recognition of the impact the reduction in return would have on income taxes and the minor impact it would have on other components of the Applicant's transportation cost of service.

The Applicant's proposal is to record this deferral in an account which would be amortized into cost of service over the three test years following the current one. TransCanada also applied for carrying charges, computed monthly at the authorized rate of return on rate base, on the unamortized balance of the account.

Several intervenors objected to the proposal, preferring to have the full required increase included in tolls in the current test year rather than amortized over three later test years. The increase, they argued, is justified in this test year because of two main factors: the large expansion program undertaken by the Applicant, primarily the North Bay Shortcut facilities, and the rolling-in of TQM's cost of service. It was also pointed out that other decisions of the Board may mitigate the full required increase in tolls.

In addition to the deferral of recovery of certain costs attributed to the North Bay Shortcut facilities, the Applicant has taken other steps to comply with the Government's 6 and 5 restraint program including: limitation of its increase in salaries, net of merit increases, to no more than 6 percent in 1983 and 5 percent in 1984; deferral of application for income taxes to be calculated on a normalized basis; and deferral of application for changes in depreciation rates to reflect negative salvage values.

In circumstances different from those surrounding the present application of TCPL, the Board may have included all approved costs in its toll determination for the current test year. However, in the present circumstances, recognizing the Applicant's desire to comply with

the Government's restraint program, the Board accepts that a deferral of a portion of the approved costs attributed to the North Bay Shortcut facilities to future test years may contribute to moderating general price increases at the national level. For this reason, the Board allows the Applicant to defer an amount of return on rate base.

Taking into account other Board adjustments to the transportation cost of service, the Board has decided to grant a deferral in an amount which will reduce the increase in the Eastern Zone for CD service to 5.5 percent. The amount of this deferral is \$45,583,280, and the consequent reduction in income taxes is \$47,470,409.

The Board allows the Applicant to include in this test year transportation cost of service carrying charges computed at the allowed rate of return on rate base, and associated income taxes (see Section 4.8.3).

The Board has also decided that the deferred balance, together with carrying charges, shall be amortized over a period of three years commencing 1 August 1984. Carrying charges shall be computed at the authorized rate of return on rate base on the average outstanding balance of the deferral account, and associated income taxes.

#### 4.2 Development Costs Transferred to TQM

During the course of the hearing a witness for the Applicant was asked whether it was TransCanada's intention to credit its cost of service by \$3,395,341 for TransCanada's overhead costs which were being considered for transfer to TQM's rate base, if such transfer was approved by the Board in its TQM decision. TransCanada undertook to make such a credit to its cost of service, provided that the amount was approved by the Board for transfer to TQM's rate base.

In the final revision to its application dated 15 June 1983, TransCanada reduced its cost of service by \$2,759,647, the amount of overhead approved by the Board in its June 1983 TQM Decision for inclusion in TQM's rate base.

#### 4.3 Transmission by Others

TransCanada projected its cost of transmission by others for the test year to be \$175,552,358. The Board has adjusted this as shown in the following summary.



	<u>Application As Revised</u>	<u>NEB Adjustments</u>	<u>Authorized by NEB</u>
Great Lakes:			
(a) Basic Charges	\$139,222,627	\$ -	\$139,222,627
(b) Fuel Adjustment	(35,549,011)	(162,156)	(35,711,167)
Union Gas	5,957,903	-	5,957,903
TQM Cost of Service	75,566,000	-	75,566,000
Deferral Adjustment	(9,799,961)	(4,428,890)	(14,228,851)
Steelman Gas	<u>154,800</u>	<u>(3,796)</u>	<u>151,004</u>
TOTAL	<u>\$175,552,358</u>	<u>\$ (4,594,842)</u>	<u>\$170,957,516</u>

The adjustments shown in the preceding summary are explained as follows.

The adjustments shown in the preceding summary are explained as follows.

#### 4.3.1 Great Lakes Fuel Adjustment

Under the pricing régime established pursuant to Part III of the EAA, fuel used in the transmission of gas through the Great Lakes system is purchased by TransCanada at the Alberta Border Price.<sup>(1)</sup> Because such fuel is sold to Great Lakes at the export price, TransCanada receives revenues in excess of the costs allocated to such fuel, amounting to the excess of the export price over the sum of the Alberta Border Price plus transmission costs on its system from the Alberta border to the export point. To offset these excess revenues, an equal amount, referred to as the "Great Lakes Fuel Adjustment", is deducted from transmission by others in the cost of service.

The Board has made an adjustment of \$162,156 to take into account the new transmission costs on TransCanada's system from the Alberta border to the export point at Emerson, Manitoba.

#### 4.3.2 August 1982 Sales Revenue Deficiency

From 1 August 1982 to 31 August 1982, TransCanada incurred a sales revenue deficiency of \$8,356,698 arising from the prescription of prices by Governor in Council under PC 1982-2248 inconsistent with the tolls recommended by Board Order TG-2-82. TransCanada requested re-

covery of \$4,428,890 of the \$8,356,698 August 1982 sales revenue deficiency through its existing TQM "Transmission by Others" deferral and amortization clause authorized by Board Order TG-3-82.

In TransCanada's view, the estimated cost in respect of the TQM transmission charges is equivalent to the estimated revenue requirement in respect of such charges and the purpose of the TQM deferral account is to compare estimated revenues with actual costs, and deferring the difference to achieve a match between revenues and costs. Because TQM charges provided in the tolls determined by Board Order TG-2-82 were not actually collected in the month of August 1982, TransCanada adjusted its TQM deferral account to reflect a lesser revenue recovery in the amount of \$4,428,890.

The Board does not consider that the amount of \$4,428,890 representing unrecovered revenue in respect of TQM estimated costs in August 1982 falls within the terms of the TQM "Transmission by Others" deferral account. The Board has therefore adjusted Transmission by Others to eliminate \$4,428,890. (Refer to Section 4.8 Miscellaneous Deferred Items for the decision on the remaining portion of the August 1982 sales revenue deficiency.)

(1) As defined in the Energy Administration Act Natural Gas Prices Regulations, 1981.

#### 4.3.3 Steelman Gas

The Board's adjustment of \$3,796 to the Applicant's calculation of the test year transportation costs for gas purchased from Steelman Gas is necessary to reflect the approved transportation costs on the Applicant's system.

#### 4.3.4 TQM Deferral Account for Fixed Charge Revenues

In its application, TransCanada also applied for a continuation of that portion of the TQM deferral account covering the deferral of the differences between estimated fixed charge revenues for the CD demand volumes as shown in Exhibit 111 (VJY-2) Final Revision and the actual amount of such revenues together with carrying charges on the month-end balance in the deferral account calculated at a rate equal to one-twelfth of the authorized annual return on rate base. In support of its request, TransCanada stated that the uncertainties associated with TQM are still evident with respect to in-service dates of the extension to Quebec City and the level of sales.

It is the Board's view that the uncertainties under which this portion of the TQM deferral account was authorized under TG-3-82 are no longer relevant in the existing circumstances. Several changes have occurred which have had an impact on reducing the amount of uncertainties associated with the sale of gas in new market areas of Quebec. Among these are the Federal/Gaz Inter-Cité Laterals Agreement and the Gas Marketing Assistance Program (GMAP) Agreements between the Federal Government and gas distributors in Quebec which were concluded in the Fall of 1982. Under these agreements, TQM's construction program will be virtually completed by the end of 1983 and the form and content of developmental prices affecting gas contracts in the new market areas have been resolved. The Board also believes that with TQM having now gained experience in its construction program, it is not unreasonable to expect the forecasted TQM in-service date to Quebec City of August 1983 to be met. With respect to in-service dates, the Board notes that deliveries have already commenced under two of the three contracts related to the CD demand volumes shown in Exhibit 111 (VJY-2) Final Revision.

For these reasons, TransCanada's application for the continuation of the fixed charge revenue portion of the TQM deferral account is denied.

#### 4.3.5 Great Lakes Lost and Unaccounted for Gas

The Board notes that the lost and unaccounted for gas on the Great Lakes system is allocated on a commodity distance basis, rather than the commodity basis which is the allocation method approved for TransCanada. The result of this difference is that TransCanada is allocated a greater share of Great Lakes lost and unaccounted for volumes.

#### 4.4 Operation and Maintenance

Adjustments made by the Board to operating and maintenance expense have resulted in a net decrease of \$6,324,104 as follows:

Lost and Unaccounted for Gas	\$(5,600,065)
Salaries and Employee Benefits	(595,799)
Transmission, Departmental and General Expenses	(369,587)
Adjustment of Indirect Charges Allocated to Alberta and Non-Utility	<u>241,347</u>
Total Adjustment	<u>\$(6,324,104)</u>

#### 4.4.1 Lost and Unaccounted for Gas

##### 4.4.1.1 Allowance

The Applicant requested approval of 46.3 10<sup>6</sup>m<sup>3</sup> of lost and unaccounted for gas during the test year, which represents 0.11 percent of the forecasted measured input.

On the basis of the evidence filed with respect to actual amounts of lost and unaccounted for gas volumes experienced in the past, the Board has decided that an allowance for lost and unaccounted for gas is not required for the 1983/84 test year. Accordingly the allowance for the test year is zero percent.



The Board's decision results in the following adjustment:

	<u>10<sup>6</sup>m<sup>3</sup></u>	<u>GJ</u>	<u>Amount at Alberta Border Price of 263.366¢/GJ</u>
Submitted by the Applicant	46.3	1,737,176	\$4,575,131
As Adjusted by the Board	<u>0</u>	<u>0</u>	<u>0</u>
Adjustment	46.3	1,737,176	\$4,575,131
Decrease in Associated Excise Tax			<u>\$1,024,934</u>
Total Adjustment			<u>\$5,600,065</u>

#### 4.4.1.2 Deferral Account

TransCanada also requested approval of a deferral account for both lost and unaccounted for gas and company use gas. This account would allow the Applicant to record the cost of variances in the actual quantities from those reflected in the tolls and enable the future tolls to be adjusted accordingly. The issue of lost and unaccounted for gas was thoroughly examined in the 1980 toll hearing and TransCanada presented a large portion of this examination as evidence in this year's hearing. TransCanada also explained that the request for a deferral account was further justified by the new uncertainties that would arise due to the new measurement facilities at Empress, Alberta.

The Board notes that TransCanada has requested approval of this deferral account several times, and, although some new evidence was presented this year, the Board is not convinced of the necessity of this account. It is the Board's opinion that approval of a deferral account for lost and unaccounted for and company use gas would remove the financial incentive for the Applicant to continue its attempts to minimize these costs.

#### 4.4.2 Salaries and Employee Benefits

TransCanada, in its estimate of test year salaries, proposed a general economic increase of 6 percent for 1983 and 5 percent in 1984, and a further one percent for merit increases. The Applicant stated that these escalation factors were applied to comply with the limits permitted under the terms of the Federal government wage restraint program (Bill C-124).

The Board accepts salary increases of 7 percent for 1983 and 6 percent for 1984, including merit increases, for the determination of the test year cost of service allowance for salaries.

The Board, in its July 1982 Reasons for Decision, allowed TransCanada to provide for salary increases of 12.0 percent for 1982. The Board remains of the view that salary increases of 12.0 percent for 1982 should have been used for the determination of the cost of service allowance for salaries in the test year, instead of the 13.2 percent used by the Applicant. The test year salaries have been reduced accordingly.

At the end of the base year, TransCanada had 1598 staff positions and 9 vacancies. For the period from the end of the base year to the end of the test year, TransCanada included a provision to add 59 new employees to its staff, for both utility and non-utility operations, and submitted a detailed explanation for each addition. The Board noted that out of the 59 additional employees requested for inclusion in the test year, 22 employees were directly assigned to the new Saskatchewan segment of the Foothills pipeline system. On the basis of this evidence, the Board accepts for inclusion in the test year cost of service, the staff level of 1666 applied for by TransCanada, recognizing that part of the cost is allocated to non-utility operations.

With regard to employee benefits during the test year, the Applicant forecast increases due to changes in statutory and retirement plan costs, to additional employees and to increases in salaries. Having regard to this evidence, the Board accepts TransCanada's estimates of test year cost of employee benefits, as modified to reflect the above-noted reduction in the test year allowance for salaries.

As a result of the above reductions, the test year allowance for salaries and employee benefits has been reduced.

#### 4.4.3 Allocation of Expenses to Non-Jurisdictional Functions

The Applicant proposed to use basically the same method of allocating administrative and general expenses to the Company's non-utility, utility and Alberta operations as it used in its 1982 application, with minor improvements.

Under the present method of allocation, identifiable expenses are charged directly to non-utility, utility and Alberta operations. In order to make allocations of indirect expenses, formulae based on direct salaries are applied to



the portion of administrative and general expenses that cannot be charged directly to the Company's divisions. The Company has refined its method of allocating these indirect expenses by developing revised formulae.

The Company's witness stated that they are still looking for other expenses that could be charged directly, and methods to allocate common costs.

The Board finds the methods used by the Company to allocate administrative and general expenses to utility, non-utility and Alberta cost of service to be reasonable. However, the Board expects TransCanada to keep such allocation methods under review, and to continue its efforts to make improvements where possible.

#### 4.4.4 Transmission, Departmental and General Expenses

TransCanada estimated the cost of service allowance for several departmental and general expenses by applying the January 1983 Conference Board of Canada forecast of the Consumer Price Index (CPI). In January 1983, the Conference Board forecast increases in the CPI of 7 percent for 1983 and 5.4 percent for 1984.

Despite downward revisions to the Conference Board January forecast, TransCanada argued that the more recent projections of the CPI prepared by the Conference Board in April of this year (5.5 percent for 1983 and 4.9 percent for 1984) were too low, especially because in its view downward revisions to previous Conference Board forecasts of inflation had turned out to be erroneous. The Company further asserted that the Conference Board's January estimates for 1983 and 1984 may be somewhat conservative in light of the evidence that the Conference Board forecasts have usually underestimated the actual rate of inflation.

It is the Board's view that the escalation factors of 7 percent in 1983 and 5.4 percent in 1984 proposed by TransCanada are high. The Board concludes that escalation factors of 6 percent for 1983 and 5 percent for 1984 are reasonable inflation adjustments for test year cost of service allowances for transmission, departmental and general expenses. As a result of this reduction in the inflation adjustment, the test year cost of service allowance for departmental and general expenses is reduced by \$369,587.

#### 4.4.5 Compressor Fuel and Operating Uses

The Applicant's forecast cost of compressor fuel and operating use gas is \$115,573,934, excluding lost and unaccounted for gas, based upon the Alberta Border Price of \$2.63366 per gigajoule.

The Board is satisfied that TransCanada's fuel consumption forecast is reasonable.

#### 4.5 Depreciation

Depreciation of fixed assets as revised was included in the cost of service at rates previously authorized by the Board. The amount projected by the Applicant has been increased by \$46,202 to reflect various adjustments to gross plant, as shown in Table 1.

#### 4.6 Amortization

TransCanada proposed to amortize in cost of service \$1,816,087 for Gain on Sale of Pipeline Facilities to NOVA. Because the Board decided that the gain on sale should be that of an ordinary retirement, as described in Section 2.2.1, the test year amortization is eliminated from cost of service.

#### 4.7 Income Taxes

##### 4.7.1 Deferral Account for Income Tax Reassessments

In its August 1980 Reasons for Decision the Board allowed TransCanada to record in a deferral account payments made as a result of income tax reassessments covering the years 1956 to 1977 inclusive. The balance in this account attracts carrying charges calculated at the authorized rate of return on rate base. Any refunds including interest resulting from TransCanada's appeals are to be credited to this account pending final disposition thereof by the Board.

The Applicant requested that the Board confirm the continued use of this deferral account.

The Board grants the continued use of the deferral account in respect of the reassessment.

##### 4.7.2 Flow-Through Tax Calculation

The Board has computed \$61,623,686 as the amount of income taxes to be included in the Company's tolls. This computation follows:

# UTILITY INCOME AFTER TAX \$143,239,786 (1)

## Adjustments to Utility Income After Tax

### ADD

Depreciation	98,835,971 (2)
Capital Gains	2,115,172 (3)

### DEDUCT

Capital Cost Allowance	132,900,600 (2)
Credit Associated with North Bay ShortCut	45,583,280 (4)
Non-Allowed Amortization of Debt, Discount and Expense	2,219,495 (3)
Overhead Capitalized	1,184,520 (2)
Eligible Capital Expenditures	83,130 (3)
Inventory Allowance	1,099,505
Interest AFUDC	<u>1,754,611 (2)</u>

UTILITY INCOME AFTER TAX,  
AS ADJUSTED \$59,365,788

Utility Income Tax Allowance  
 $.51014 \times \$59,365,788$  \$61,823,507  
 $1-.51014$   
Less: Ontario Reduction 147,821  
Credit for Research  
and Development 52,000

UTILITY INCOME TAX  
ALLOWANCE, AS ADJUSTED \$61,623,686

- (1) Equals the allowed rate base multiplied by the sum of the allowed weighted average costs of preferred and common equity capital, i.e.  $\$2,594,923,660 \times (.0132 + .0420)$ .
- (2) Revised to reflect Board adjustments attributable to rate base deletions. (Table 1, Chapter 2).
- (3) Revised to reflect adjustments made in the Final Revision but not incorporated in the income tax calculations.
- (4) Reflects adjustments to incorporate revised NBSC credit approved by the Board (Section 4.1).

## 4.8 Miscellaneous Deferred Items

### 4.8.1 August 1982 Sales Revenue Deficiency

TransCanada has applied for an amortization order to recover an amount of \$4,056,811 over the test year with the average unamortized balance to be included in rate base. The \$4,056,811 represents that portion of the \$8,356,698 August 1982 sales revenue deficiency (see Section 4.3.2) which the Applicant did not apply to recover under the TQM "Transmission by Others" deferral, and a proposed refund to Gaz Métro of \$129,003.

In the month of August 1982, TransCanada collected a higher toll from Gaz Métro under the T-Service Rate Schedule than the transportation charge collected for gas sold to Gaz Métro under the CD Rate Schedule. The prescription of prices by Governor in Council, which delayed the implementation of tolls for sales service, did not delay the implementation of tolls for transportation service. The proposed refund to Gaz Métro would, in TransCanada's view, cure the discrimination resulting therefrom.

The Board notes that by letter dated 21 September 1982, TransCanada applied to the Board for an accounting order permitting it to defer the August 1982 revenue deficiency with the intention of recovering the deferred amount, together with an allowance for the cost of financing such amount, in a future Company toll application. The Board, in its response dated 14 October 1982, expressed the opinion that it did not have the jurisdiction to include this amount in TransCanada's future tolls, for to do so could be considered retroactive rate making. Consequently, the deferral order was not granted.

The Board sees no reason to change its position on this matter, and therefore an amortization order to recover the August 1982 sales revenue deficiency is not granted.

In the opinion of the Board, recovery of the proposed refund to Gaz Métro could also be considered retroactive rate making, and consequently, the recovery of the refund is not granted. Accordingly, Miscellaneous Deferred Items has been reduced by \$4,056,811.

Further, the Board considers that a similar refund requested by Saskatchewan Power Corporation during the hearing could also be considered retroactive rate-making and therefore does not require that such refund be made.

#### 4.8.2 Deferral Account for Future Amounts Unrecovered in Tolls

TransCanada has applied for a new deferral account for the recording of future inconsistencies between its tolls, rates, prices or other charges as established by a competent authority and the tolls as established from time to time by the Board. The deferred amount together with carrying charges is requested to be amortized from time to time through adjustments in future tolls.

Having considered the evidence, and having regard to the legislation of both the National Energy Board Act and the Energy Administration Act, the Board is not convinced that it would be appropriate to authorize the recovery of such deferred amounts in future tolls and accordingly the request for such a deferral order is denied.

#### 4.8.3 Carrying Charges on the North Bay Shortcut Credit

In respect of the North Bay Shortcut Credit the Applicant requested that carrying charges, including associated income taxes, in the amount of \$6,076,814, be included in its test year cost of service.

The Board grants the Applicant's request, but for a lesser amount. The approval of a lesser North Bay Shortcut Credit, as well as other decisions of the Board on rate of return matters, combine to reduce the applied-for carrying charges and income taxes thereon by \$1,575,801, for an approved amount of \$4,501,013.

#### 4.9 Other Operating Income

The Board's adjustment of \$19,496 to the Applicant's calculation of other operating income for the test year was necessary in order to reflect decreased revenue from the sale of delivery pressure arising from the new approved Manitoba tolls which are used in the calculation of that revenue.

#### 4.10 Miscellaneous Revenue

TransCanada credited its transportation cost of service with miscellaneous revenue amounting to \$5,760,530. This amount included revenue from the sale of Peaking Service (PS) and Temporary Winter Service (TWS).

The Board has made an adjustment of \$16,225 to reflect the approved toll to the Eastern Zone which is used in the calculation of revenue received from the sale of PS and TWS.



## CHAPTER 5

### Toll Design and Tariff Matters

#### 5.1 Toll Design

##### 5.1.1 AOI Service

##### 5.1.1.1 AOI Tolls

TransCanada in its original application proposed two tolls for AOI service in the Eastern Zone; one off the TransCanada system based on incremental costs of providing the service and one off the TQM system based on CD service taken at 100 percent load factor, (CD-100). During the course of the hearing and in argument TransCanada took the position that the toll for AOI service in the Eastern Zone should be a single toll which would equal the higher of CD-100 or incremental costs.

Consumers' took the position that the toll for AOI service in the Eastern Zone should be the same for all customers and that it should be based on incremental cost. Gaz Métro believed the fixing of an AOI-TQM toll equal to CD-100 could have negative impacts on the sale of gas on an interruptible basis when the toll for AOI service based on incremental costs falls below CD-100.

Since November 1982, developmental prices based on CD service taken at 100 percent load factor have been available for the expansion of gas service into new market areas of Quebec under the federal government's Gas Marketing Assistance Program. As a result, there are areas within the Eastern Zone where developmental service is available and other areas where it is not. The Board maintains the view that the toll for AOI service should not be lower than the toll for developmental service in those areas where both services are available. In effect, this may give rise to situations where two tolls for AOI service in the Eastern Zone are necessary, one for those areas where developmental service is available and another where such service is not available. However, it is the Board's view that the requirement for two tolls for AOI service in the Eastern Zone only arises in those situations where the toll for AOI service based on incremental costs falls below CD service taken at 100 percent load factor.

Therefore, it is the Board's view, after taking into account the calculation of summer and winter tolls for AOI service as described in Section 5.1.1.2, that three tolls for AOI service in the Eastern Zone are appropriate during the test year.

In the winter season only a single toll for AOI service is required based on the incremental costs of providing the service. During the summer season, two AOI service tolls are appropriate when the summer AOI service toll based on incremental costs falls below the toll for CD service at 100 percent load factor in the Eastern Zone. In the event of this occurring in the summer, the toll for AOI service will continue to be based on the incremental costs of providing such service (AOI-S-TCPL) for those delivery points off the TCPL system where developmental service is not available. However, for those delivery points off the TCPL and TQM systems where AOI and developmental services are both available, it is appropriate to set the toll for AOI service at the same level as the toll for CD service taken at 100 percent load factor in the Eastern Zone (AOI-S-TQM). This AOI-S-TQM toll would apply to AOI sales off the TQM system and off the TCPL system at Sabrevois, Quebec, when this delivery point is in service.

##### 5.1.1.2 Calculation of AOI Tolls

TransCanada's proposed tolls for AOI service are based on the determination of the incremental costs of providing the service in each of TransCanada's zones. The main component of these tolls is the incremental fuel costs which are based on the determination of the incremental fuel rates which range from 5 percent in the Saskatchewan Zone to 28 percent in the Eastern Zone. According to TransCanada, these rates were determined by calculating and comparing for the peak month of January 1983 the system's daily fuel requirements including AOI deliveries and the system's daily fuel requirements without AOI deliveries. The incremental fuel for delivery of AOI into each rate zone was then divided by the corresponding AOI sale to determine the incremental fuel rate. Average day deliveries of AOI used in the calculation are based on average day deliveries of AOI over a 90-day period during the peak winter months of December through March because most AOI deliveries occur in the winter months. This base case calculation for January was done at the system capability with all operating stations at or near their maximum operating pressure and all excess flow being delivered to the Lisgar delivery point.

TransCanada further indicated that the amount of fuel actually consumed over a month, season or a year is highly dependent on the level of

throughput because there is a non-linear relationship between fuel consumed and throughput. TransCanada also indicated that for the Eastern Zone, at the top increment of throughput the incremental fuel rate could approach 28 percent, even though the average fuel rate could be as low as 6 or 7 percent over a given month or year.

At the Board's request, TransCanada provided the incremental fuel rates for projected deliveries of AOI during the month of September 1983. These calculations indicated that the AOI fuel rates based on that month are lower for each zone than those applied for, ranging from 3 percent in the Saskatchewan Zone to 23 percent in the Eastern Zone.

Gaz Métro and Consumers' expressed concern that the proposed toll for AOI service in the Eastern Zone is based on incremental costs determined by an incremental fuel rate which appeared higher than it ought to be for the service. Gaz Métro further suggested that the incremental fuel rate be reduced to a maximum of 14 percent.

Upon review of the evidence, the Board believes the incremental fuel rates used by TransCanada in the design of the proposed tolls for AOI service reflect the maximum rates for the test year when the system is operating at or near system capability with all operating stations at or near their maximum operating pressure. Consequently, these rates would not reflect the actual incremental fuel costs of providing AOI service throughout the test year, particularly during the summer season from April to October. Although TransCanada does not forecast AOI deliveries during the summer season because most of the deliveries occur during the winter season, the evidence indicates that over the past three years such sales have occurred and can be reasonably expected to occur in the summer season of the test year.

Therefore, the Board finds it appropriate to set summer and winter tolls for AOI service, based on the incremental fuel rates determined for the months of September and January respectively. The summer and winter tolls calculated on this basis may be found in Appendix II.

#### 5.1.2 ACQ Differential

The calculation of the ACQ differential required to determine the level of the ACQ toll is an attempt to quantify the difference in costs that would be incurred by TransCanada in the test year, if ACQ service was converted to CD service.

TransCanada proposed certain revisions to the previously approved methodology for calculation of the ACQ differential to recognize the unavailability of cheaper Tecumseh storage, the additional storage capacity required to permit maximum daily withdrawals, the injection and withdrawal charge volumes required for the daily and hourly variations in volume in addition to seasonal variation, and the valuation of the cost of inventory at the Alberta Border Price.

Union, supported by Consumers', submitted its proposal for the calculation of the ACQ differential, which differed from the Applicant's in the following cost categories:

#### 1) Commodity Cost of Transportation

Union submitted that the Applicant's method of applying the "TransCanada with Compression" M12 rate to all volumes that would be transported by Union on behalf of TransCanada is inappropriate. In its view, that rate should apply only to those volumes that would be transported for ultimate sale to Union. A higher "Other with Compression" rate was proposed by Union for those volumes that would be transported for ultimate sale to Consumers'.

#### 2) Cost of Storage

##### a) Space Charge Volume

TransCanada's proposed space charge volume reflects the additional storage capacity required for maximum daily withdrawals if ACQ service was converted to CD service. In Union's view, the space charge volume should be based on the additional storage capacity required to meet a daily injection demand that would reflect TransCanada's current contractual right under ACQ service for delivery in late summer at 35 percent above the average ACQ volume.

##### b) Injection and Withdrawal Charge Volume - Daily Variation

TransCanada proposed an injection and withdrawal charge volume for hourly variation at 20 percent of the daily variation volume. In Union's view the hourly variation volume should be 10 percent of the annual contract quantity.



### 3) Cost of Inventory

The Applicant valued the cost of inventory at the Alberta Border Price. Union considered the average Eastern Zone CD-100 toll to be appropriate for this valuation.

### 4) Other Related Costs

Union's proposal included an additional category for other related costs on the TransCanada system. Union proposed the inclusion of additional costs pertaining to operations, and Oakville to Dawn Compression, estimated at 10 percent of the aggregate of the costs of transportation, storage and inventory.

Having considered the evidence, the Board considers Union's methodology will result in better estimates of the commodity cost of transportation from Dawn to Oakville, the determination of space charge volume, the determination of injection and withdrawal charge volume reflecting hourly variation, and the valuation of inventory.

The Board, however, found Union's explanation of other related costs to be somewhat vague and its estimate of such costs to be arbitrary. Therefore, no provision for other related costs is to be made in the calculation of the ACQ differential. The Board finds the ACQ differential to be  $\$5.9/10^3\text{m}^3$  as calculated in the following table.

#### TRANSCANADA PIPELINES LIMITED

##### Toll Differential Between CD Service and ACQ Service

<u>A. Cost of Transportation Service</u>		<u>Rate</u>	<u>Volume (<math>10^6\text{m}^3</math>)</u>	<u>Cost (\$000)</u>
Demand ( $\$/10^3\text{m}^3/\text{mo.}$ )		47.199	14.9	\$ 8,439
Commodity ( $\$/10^3\text{m}^3$ )	(TCPL)	1.507	1303	1,964
	(Others)	1.678	947	1,589
Total Cost of Transportation				<u>11,992</u>
<u>B. Cost of Storage Service</u>		<u>Volume (<math>10^6\text{m}^3</math>)</u>	<u>Union Storage Rate (\$000)</u>	
Demand Charge ( $\$/10^3\text{m}^3/\text{mo.}$ )		7.5	29.689	2,672
Space Charge ( $\$/10^3\text{m}^3/\text{mo.}$ )		1,077	0.460	5,945
Injection & Withdrawal Charge ( $\$/10^3\text{m}^3$ )				
- season	18	1.746		31
- daily	553	1.746		966
- hourly	546	1.746		<u>953</u>
Total Cost of Storage				<u>10,567</u>
<u>C. Cost of Inventory</u>		<u>Volume (<math>10^6\text{m}^3</math>)</u>	<u>Rate %</u>	<u>Cost (CD Toll - <math>\\$/10^3\text{m}^3</math>)</u>
Six Months' Inventory	18	7.000		133.971
Twelve Months' Inventory	496	14.000		133.971
Total Cost of Inventory				<u>9,472</u>
Total				<u>\$32,031</u>
Average Cost on $5455.2 \times 10^6\text{m}^3$				5.872
ACQ Toll Differential ( $\$/10^3\text{m}^3$ )				5.9



### 5.1.3 Gaz Métro Proposal

Gaz Métro proposed a tilt of tolls for CD service and T-Service to transfer some portion of the fixed costs from the demand component of the Eastern Zone CD toll into the commodity toll while retaining a single CD toll level without take-or-pay provisions. This proposal in Gaz Métro's view, would increase TransCanada's volume risk and thus encourage it to intensify its gas marketing efforts.

Assuming the tilted CD toll, Gaz Métro further proposed that the AOI toll be set equal to the average CD toll at 100 percent load factor with a mechanism for sharing AOI revenue between the distributor and the transmission company. For each unit of AOI volume sold, Gaz Métro requested that the distributor receive a credit against its CD service or T-Service demand charge equal to the unit demand charge, and that the transmission company receive the commodity charge as increased according to the tilting proposal.

TransCanada opposed the Gaz Métro tilting proposal arguing that the proposal was not thoroughly researched by Gaz Métro, and that tilting, by increasing marginal tolls, would in fact be counterproductive to the marketing of natural gas.

The Applicant stated, however, that, in principle, it does not object to a risk-sharing proposal provided it can have some meaningful impact on the success or failure of the proposal. TransCanada expressed a willingness to submit to the Board, alternative toll design proposals which would, in its view, assist in the marketing of gas in accordance with the standard of just and reasonable tolls.

With respect to Gaz Métro's toll design for AOI service, and the proposed mechanism of sharing AOI revenue, TransCanada noted that it would not be permitted recovery of its AOI costs which would result in no AOI sales being made.

Intervenors opposed to Gaz Métro's toll design proposal, noted that the tilting of tolls represents a departure from cost based rates and would result in a cross-subsidization of low load factor customers by high load factor customers. It was further noted that the transfer of a portion of fixed costs for recovery through the commodity component could provide less incentive for distributors to improve load factor, and some distributors' competitive positions in the industrial interruptible market would be adversely affected.

SOQUIP, in its support of the Gaz Métro toll design proposal, requested that TCPL be directed to implement a special development tariff to promote the use of natural gas in the industrial sector.

The Board recognizes that there are possibilities for assisting the marketing of natural gas through modifications to TransCanada's existing tolls and tariff structures.

The Board has considered Gaz Métro's proposal but believes that implementation of this proposal would create other problems at both the transmission and distribution levels, as was clearly demonstrated by the evidence in this proceeding. Therefore, the toll design modifications proposed by Gaz Métro are not accepted at this time.

In the Board's view, the proposal put forth in argument by SOQUIP for a special industrial development tariff requires further development and analysis before serious consideration can be given by this Board.

Further, the Board notes TransCanada's willingness to submit alternative toll design proposals which could assist in the marketing of natural gas, and asks that such proposals be developed and submitted for consideration at the next toll proceeding.

## 5.2 Tariff Matters

### 5.2.1 T-Service

As a result of the recent enactment of subsection 59(2) of the National Energy Board Act, TransCanada, in anticipation of the probable greater use of its system for transportation by its distributors and possibly others, proposed several revisions to its T-Rate Schedule and to Section XIII of its General Terms and Conditions.

The Board approves the proposed tariff amendments relating to T-Service with certain modifications. A discussion of the key issues and the Board's modifications to the T-Service tariff follow in Sections 5.2.1.1 to 5.2.1.4 below.

#### 5.2.1.1 Availability

TransCanada proposed a revision to the Availability Section 1.1 of its existing T-Rate Schedule. TransCanada's initial proposal with respect to availability of T-Service was generally more restrictive than the availability provision in its existing tariff. The Applicant submitted that the restrictions in its initial proposal addressed the following concerns of the Company;

- 1) preservation of criteria traditionally applied by regulating agencies when approving gas pipeline projects,
- 2) minimization of the possible increases in TransCanada's business risks resulting from the provision of the transportation service to other parties, and
- 3) protection of TransCanada's existing contractual sales to its customers.

After consideration of the concerns and comments of intervenors, TransCanada amended its initial proposal for availability of T-Service to include only the requirement for an Order of the National Energy Board pursuant to subsection 59(2) of the National Energy Board Act requiring TransCanada to transport gas for shippers. Further, any T-Service contract between TransCanada and another party in effect prior to the effective date of the proposed T-Rate Schedule would be exempted from this requirement. TransCanada noted that, at some later date, it may be possible to structure specific guidelines of availability to eliminate the process of numerous applications under subsection 59(2).

Several intervenors opposed TransCanada's initial proposal with respect to availability because it was unduly restrictive, particularly in its exclusion of industrial end users.

TransCanada's final proposal respecting availability was considered an improvement by many intervenors, but others believed it inappropriate and unnecessary to essentially defer the whole issue to a series of reviews under subsection 59(2). Some intervenors maintained that a review by the Board should only be required in the event that an agreement between TransCanada and the prospective shipper could not be concluded.

The Board was not convinced by the evidence that it would be in the public interest at this time to allow a broad range of availability of T-Service, independent of any requirement for approval under subsection 59(2) of the National Energy Board Act. At the same time, the Board considers the requirement for an Order under subsection 59(2) for all shippers to be unnecessary, particularly for some companies engaged in the sale, transmission, or distribution of natural gas.

Having considered the evidence, the Board amends the Availability Section in TransCanada's T-Rate Schedule as follows:

## "AVAILABILITY

1.1 This Rate Schedule is available for transportation service by TransCanada for any shipper (hereinafter called "Shipper"):

- a) which will take delivery hereunder of gas for sale (or for its own use for fuel and other company use purposes) in an area or areas for which Shipper or a subsidiary holds a franchise or requisite authorization, or for sale or delivery to a public utility or a gas transmission company which holds a franchise, certificate or other requisite authorization for the resale or transportation of such gas PROVIDED ALWAYS that Shipper's gas transported by TransCanada will not, in whole or in part, displace or substitute for volumes of gas which Shipper or any purchaser from Shipper had contracted to purchase from TransCanada; and
- b) which has obtained all certificates, permits or other authorizations which it requires in connection with the transportation and ultimate disposition by it of gas to be transported by TransCanada; and
- c) which has a gas supply or assurances thereof available for delivery to TransCanada which is adequate to ensure a reasonable level of utilization of the facilities of TransCanada required to render the transportation service; and
- d) which has executed a T-Service contract with TransCanada for a minimum of fifteen years.

1.2 This Rate Schedule is also available for transportation service, by TransCanada for any party (hereinafter called "Shipper") which on or after 1 August 1983 shall have obtained an Order of the National Energy Board pursuant to subsection 59(2) of the National Energy Board Act requiring TransCanada to transport gas for Shipper, subject to the provisions of this Rate Schedule, and to such terms and conditions as such Order of the Board as aforesaid shall provide."



#### 5.2.1.2 Pro Rata Proposal

TransCanada proposed to modify its T-Rate Schedule and General Terms and Conditions to require a shipper who purchases either CD Service or SGS Service in addition to T-Service to pro-rate deliveries on the basis of contract quantities on any day when less than full volumes are nominated. TransCanada maintained that the pro rata provision was required to protect its markets and avoid the displacement of other services by T-Service.

Several intervenors opposed the pro rata requirement on the basis that it related to TransCanada's business as an owner and supplier of natural gas and not its regulated transmission business.

Gaz Métro supported the pro rata proposal for future contracts but requested exemption for its present T-Service contract which was executed on 15 April 1974. Gaz Métro submitted that the application of the pro rata requirement to that contract would cause it undue hardship because of the take-or-pay obligations included in its gas purchase contract with Pan-Alberta. TransCanada recommended that the present Gaz Métro T-Service contract be exempted from the pro rata proposal.

TransCanada's role in the marketing of natural gas has contributed significantly in the past to the effectiveness of its pipeline operation. In order that this contribution may continue, the Board finds that it is reasonable and in the public interest to protect TransCanada's opportunity to sell natural gas under fair and competitive conditions by including the pro rata provision in its tariff. Further, it is the Board's view that the exclusion of the present Gaz Métro T-Service contract from the pro rata requirement will not result in unjust discrimination.

Accordingly, the Board approves the inclusion of the pro rata requirement in TransCanada's tariff, as further amended to exclude the present T-Service contract with Gaz Métro.

#### 5.2.1.3 Fuel Requirements

TransCanada proposed to modify its T-Rate Schedule to remove the requirement for shippers to provide the related fuel volumes, citing administrative problems with the present arrangement. Notwithstanding the above, during the hearing TransCanada stated that it would purchase the fuel requirement from shippers who wished that feature.

Gaz Métro supported TransCanada's amendment but submitted that the implementation of this measure would cause Gaz Métro immediate problems in connection with the supply contract with Pan-Alberta and the April 1974 transportation contract between Gaz Métro and TransCanada. During the hearing, TransCanada indicated that it would make all the necessary arrangements to make sure that Gaz Métro would not be prejudiced by the amendment, and would do so before the new tolls came into effect.

In the Board's view, the provision of compressor fuel required for transmission of natural gas on any pipeline system is an activity which is normally carried out by the pipeline owner without constraint and with freedom to negotiate fuel supply with either shippers or other suppliers. Therefore, the Board finds that it is inappropriate to include in TransCanada's tariff the option for a T-Service shipper to provide its own fuel.

#### 5.2.1.4 Other T-Service Matters

During the course of the hearing, TransCanada acknowledged an oversight in its failure to request that its existing General Terms and Conditions applicable only to T-Service be superseded by its proposed General Terms and Conditions applicable to all services including T-Service.

The Board approves the replacement of the existing General Terms and Conditions for T-Service by the new General Terms and Conditions as approved by this decision.

#### 5.2.2 North Bay Shortcut Zoning

By letter dated 16 December 1982, TransCanada applied, pursuant to Section 51(1)(b) of the Act for an Order of the Board approving the inclusion of all existing, proposed or future delivery points on the North Bay Shortcut portion of their system in the Eastern Delivery Area of the Eastern Rate Zone (including but not limited to Haley Station, Mattawa, Chalk River, Kemptville and Stittsville). TransCanada further applied to the Board pursuant to subsection 17(1) Act for a variation of its decision of 6 December 1982 with respect to the inclusion of Haley Station in the Eastern Delivery Area of the Eastern Rate Zone on an interim basis so as to have the Board determine the inclusion thereof on a final basis.

By letters dated 1 February 1983 and 6 April 1983, the Board informed TransCanada of its intention to dispose of the issue of zoning for all existing, proposed and future delivery points off



the North Bay Shortcut (including Haley Station and Mattawa) at the next TransCanada toll hearing.

In this toll proceeding, discussions of an appropriate zone for all North Bay Shortcut Delivery Points focussed on whether the Northern Rate Zone or Eastern Rate Zone is appropriate for the Mattawa delivery point.

In TransCanada's view, on the basis of existing zone boundaries defined in its approved tariff, the Mattawa delivery point is properly included in the Eastern Rate Zone. TransCanada argued, in part, that Mattawa at kilometre post 2709.14 km is beyond the current Northern Zone boundary kilometre post 2662.16 km and, historically, distance has been a determining factor for delineation of rate zone boundaries. TransCanada further noted that the North Bay Shortcut was designed exclusively as a facility to augment gas supply to Eastern Zone markets.

Northern and Central, on the other hand, believed that Mattawa should be in the Northern Rate Zone. In its view, the similarity of the Mattawa energy market to that of North Bay located in the Northern Rate Zone, the suitably large uninhabited area southeast of Mattawa, and the existence of administrative hardships for Northern and Central if Mattawa is included in the Eastern Zone, support the appropriateness of including the Mattawa delivery point in the Northern Rate Zone.

The Board recognizes that the criteria cited by Northern and Central and supported by some intervenors are relevant to zoning decisions. However, in this instance, where there already are established rate zones, it is the Board's view that greater consideration must be given to the distance of haul when new delivery points are added to the system.

Accordingly, the boundary separating the Northern Zone and Eastern Zone on the North Bay Shortcut shall be at a point representing a length downstream from Alberta of 2662.16 km, which is the same as the existing Northern and

Eastern Zone boundary. Consequently, Mattawa and Haley Station are included in the Eastern Rate Zone.

#### 5.2.3 Diversion of Gas

In its application, TransCanada proposed an amendment to Section 7 of its CD Rate Schedule to permit the diversion of gas within the Eastern Delivery Area between delivery points on the facilities of TransCanada and those of TQM and to provide for a method of determining the volumes so diverted. Under cross-examination TransCanada also indicated that it was its intent to allow diversion of T-Service but that its study in this matter had not been completed.

Only Gaz Métro and Gaz Inter-Cité are directly affected by the proposed change and neither of these companies objected to the proposal. Gaz Métro supported the proposal and requested the Board to have TransCanada file a similar amendment to provide for the diversion of gas in the T-Service Rate Schedule.

The Diversion of Gas provision of the existing CD Rate Schedule, permits TransCanada's customers to divert gas among their affiliated companies within a delivery area and between delivery areas so as to meet the operational demands of the customers' systems at various delivery points. Taking into consideration the evolution of the TransCanada and TQM systems and sales contracts in the development of markets in Quebec, it is the Board's view that the diversion of gas among delivery points between the two systems should be similar to the diversions of gas currently permitted on the TransCanada system.

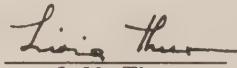
The Board therefore finds the proposed amendment to Section 7 of the CD Rate Schedule to be appropriate. With regard to a similar diversion provision in the T-Service Rate Schedule, the Board notes that TransCanada has not completed its study on the matter. It is the Board's view that it would be premature to arrive at any decision pertaining to the diversion of gas under T-Service until the study is completed.




## CHAPTER 6 Disposition

Order Nos. TG-4-83, TG-5-83 and AO-1-TG-3-82, which are shown as Appendices II, III and IV respectively, were predicated upon these Reasons for Decision. The foregoing chapters,

together with the above Orders, constitute our Reasons for Decision and our Decision on the application by TransCanada PipeLines Limited pursuant to Part IV of the NEB Act.



L.M. Thur  
Presiding Member



J.R. Jenkins  
Member



R.B. Horner, Q.C.  
Member

Ottawa, Canada  
28 June 1983





NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. RH-2-83

IN THE MATTER OF the National Energy Board  
Act and the Regulations made thereunder;  
and

IN THE MATTER OF an application by  
TransCanada PipeLines Limited (hereinafter  
called "the Applicant") for certain orders  
respecting tolls under Sections 50, 51 and 53  
of the National Energy Board Act and for  
certain orders under Section 53 of the Energy  
Administration Act, filed with the Board  
under File No. 1562-T1-16.

B E F O R E the Board on Monday, 7 March 1983.

UPON reading the application filed by the Applicant dated  
31 January 1983 (hereinafter called the "application"), firstly,  
under Sections 50, 51 and 53 of the National Energy Board Act, for  
orders fixing the just and reasonable tolls that the Applicant may  
charge for or in respect of transportation of gas sold by the  
Applicant, and for transportation services rendered for Saskatchewan  
Power Corporation, Consolidated Natural Gas Limited, Gaz  
Métropolitain, inc., ProGas Limited, and Sulpetro Limited and  
disallowing any existing tariffs or tolls or portions thereof that  
are inconsistent with the just and reasonable tolls so fixed,  
effective 1 August 1983 and, secondly, under Section 53 of the Energy  
Administration Act and the Regulations made pursuant to Part III of  
the said Act, for Special and General Orders approving the price to  
be paid by the Applicant to acquire gas for removal from the Province  
of Alberta and revoking any previous orders inconsistent therewith;

AND UPON the Board, by letter dated 1 February 1983, having  
stated its intention to examine through the public hearing process  
TransCanada's application dated 16 December 1982 for an order  
approving the inclusion of all existing, proposed or future

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delivery points on the North Bay Shortcut portion of TransCanada's system in the Eastern Delivery area of the Eastern Rate Zone;

AND UPON the Board, by letter dated 18 February 1983, having stated its intention to examine through the public hearing process the cost allocation and zoning procedures on the TransCanada system; this examination to be restricted to the consideration of the implications of the North Bay Shortcut facilities;

AND UPON the Board, by letter dated 18 February 1983, having stated that a comprehensive review of the cost allocation and consequent zoning methodology will be reviewed in a separate hearing to be held at a later date.

IT IS ORDERED THAT:

1. That portion of the application made under Sections 50, 51 and 53 of the National Energy Board Act, together with the matters referred to in the Board's letters of 1 February and 18 February 1983 relating to the North Bay Shortcut facilities, will be heard at a public hearing commencing at 9:30 a.m. on Tuesday, 17 May 1983 in the Hearing Room of the National Energy Board, Trebla Building, 473 Albert Street, Ottawa, Ontario, (hereinafter referred to as "the Hearing"). The proceedings will be conducted in either of the two official languages and simultaneous interpretation will be provided should a party to the proceedings request such facilities in his intervention.

2. The Applicant shall, as soon as possible, serve a true copy of the application, if not already served, and a true copy of this Order, upon each of the Applicant's customers, upon each person



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listed in Appendix I to this Order and, as soon as possible, upon each other party who has intervened pursuant to paragraph 4. of this Order.

3. The Applicant shall arrange to have the Notice of the Hearing as set out in Appendix II to this Order published by 21 March 1983, or as soon thereafter as possible, in one issue each of "The Herald" in Calgary and "The Journal" and "Le Franco-Albertain" in Edmonton, all in the Province of Alberta; "The Leader-Post" and "L'eau-Vive" in Regina, both in the Province of Saskatchewan; "The Winnipeg Free Press" and "La Liberté" in Winnipeg, both in the Province of Manitoba; "The Globe and Mail", "Toronto Star", "The Financial Post" and "Le Toronto Express" in Toronto, "The Citizen" and "Le Droit" in Ottawa, all in the Province of Ontario; "The Gazette", "La Presse" and "Financial Times of Canada" in Montreal, all in the Province of Quebec, and as soon as may be possible in the "Canada Gazette".

4. Any person intending to intervene in the hearing shall, by 8 April 1983, file with the Secretary of the Board, thirty copies of a written statement, in either of the two official languages, containing his submission, together with any supporting material, and as soon as possible thereafter shall serve three copies of his submission and supporting material upon the Applicant and one copy upon each of the parties named in Appendix I of this Order. This submission:

- (a) shall contain a concise statement of the facts from which the nature of the intervenor's interest in the proceeding may be determined;

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- (b) may admit or deny any or all of the facts alleged in the application;
- (c) shall be endorsed with the name and address of the intervenor or his solicitor to whom communications may be sent;
- (d) shall state the official language in which the intervenor wishes to be heard; and
- (e) shall indicate whether the intervenor wishes to receive a copy of the application or a portion thereof from the Applicant.

A list of intervenors will be distributed to all parties by the Board on or shortly after 12 April 1983. Upon receipt of this list, all intervenors shall also serve a copy of their submission upon each other party who has intervened pursuant to this paragraph.

5. Any party who files a statement of intervention after 8 April 1983, must file and serve a Notice of Motion requesting leave to submit a late intervention. Such notice shall be filed and served in accordance with paragraph 7 of the Rules and Procedures set out in Appendix III to this Order.

6. Upon receipt of a written statement referred to in paragraph 4 hereof containing a request for a copy of the application or a portion thereof, the Applicant shall, as soon as possible, either provide the same or apply to the Board for relief from this requirement.

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7. The Applicant shall prepare its direct evidence written in question and answer form with lines numbered (hereinafter called "written direct evidence") for each of its witnesses and shall,

(a) on or before 31 March 1983 file thirty copies with the Secretary of the Board, and

(b) as soon as possible, serve one copy of the same upon any other party who has intervened pursuant to paragraph 4 of this Order.

8. Any party who has intervened pursuant to paragraph 4 and who wishes to present direct evidence in the Hearing, shall, unless otherwise authorized by the Board, prepare written direct evidence by 21 April 1983 and file thirty copies with the Secretary of the Board and serve one copy of the same upon the Applicant and each other party who has intervened pursuant to paragraph 4.

9. The Rules and Procedures set out in Appendix III to this Order shall govern the conduct of the Hearing.

10. Any interested party may examine a copy of the application and submissions in the Board's Library:

9th Floor,  
Trebla Building,  
473 Albert Street,  
Ottawa, Ontario  
K1A OE5

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or at the offices of the Applicant at the following addresses:

TransCanada PipeLines Limited,  
Commerce Court West,  
Toronto, Ontario  
M5L 1C2

or

407-8th Avenue South West,  
Calgary, Alberta  
T2P 2M7

DATED at Ottawa, Ontario, 7 March 1983.

NATIONAL ENERGY BOARD

A handwritten signature in dark ink, appearing to read "G. Yorke Slader", written over a horizontal line.

G. Yorke Slader,  
Secretary

RH-2-83

APPENDIX I  
ORDER NO. RH-2-83

Mr. Geoffrey Ho,  
Barrister and Solicitor,  
Legal Services,  
Alberta Energy and Natural  
Resources,  
Petroleum Plaza - South Tower,  
9915 - 108 Street,  
Edmonton, Alberta  
T5K 2C9

Attorney General for the  
Province of Saskatchewan,  
Legislative Buildings,  
Regina, Saskatchewan  
S4S 0B3

Attorney General for the  
Province of Manitoba,  
104 Legislative Buildings,  
Winnipeg, Manitoba  
R3C 0V8

Attorney General for the  
Province of Ontario,  
18 King Street East,  
Toronto, Ontario  
M5C 1C5

and

Mr. John M. Johnson,  
Director,  
Legal Services,  
Ministry of Energy,  
56 Wellesley Street West,  
12th Floor,  
Toronto, Ontario  
M7A 2B7

Procureur général de la  
Province de Québec,  
Edifice Delta,  
1200 route de l'église,  
Ste-Foy, Québec  
G1V 4M1

and

Me Jean Giroux, avocat,  
Service juridique du Ministère  
de l'énergie et des ressources,  
200B, chemin Ste-Foy,  
Québec City, Québec  
G1R 4X7

Mr. D.E. Alderson,  
President,  
Canadian Gas Association,  
55 Scarsdale Road,  
Don Mills, Ontario  
M3B 2R3

The Secretary,  
Canadian Petroleum Association,  
1500 - 633 - Sixth Avenue S.W.  
Calgary, Alberta  
T2P 2Y5

Mr. A.E. Potter,  
Manager, Regulatory Affairs,  
Independent Petroleum  
Association of Canada,  
700-707-7th Avenue S.W.  
Calgary, Alberta  
T2P 0Z2

Mr. T. Bjerkelund,  
Executive Director,  
Industrial Gas Users  
Association,  
170 Laurier Avenue W.,  
Ottawa, Ontario  
K1P 5V5

APPENDIX II  
ORDER NO. RH-2-83

NATIONAL ENERGY BOARD  
NOTICE OF PUBLIC HEARING  
TRANSCANADA PIPELINES LIMITED - TOLLS

The National Energy Board will conduct a hearing on an application by TransCanada PipeLines Limited for orders under Sections 50, 51 and 53 of the National Energy Board Act fixing the just and reasonable tolls TransCanada may charge for or in respect of transportation of gas sold by TransCanada, and for transportation services rendered for Saskatchewan Power Corporation, Consolidated Natural Gas Limited, Gaz Métropolitain, inc., ProGas Limited, and Sulpetro Limited and disallowing any existing tariffs or tolls or portions thereof that are inconsistent with the just and reasonable tolls so fixed. The hearing will also be concerned with a review of the zoning and cost allocation procedures on the TransCanada Pipeline System which will be restricted to a consideration of the implications of the North Bay Shortcut facilities. The hearing will commence at 9:30 a.m. on Tuesday, 17 May 1983, in the Hearing Room of the National Energy Board, Trebla Building, 473 Albert Street, Ottawa, Ontario.

The hearing will be public and will be held to obtain evidence and hear the relevant views of interested parties, groups, organizations, and companies on the application.

Any person wishing to intervene should write or telex the Secretary of the Board, as soon as possible, requesting a copy of Order RH-2-83 (available in English or French) which sets out the procedure for intervening and the locations at which copies of the application may be examined. The deadline for filing interventions with the Board is 8 April 1983.

For further information, telephone the Board's Information Officer, Mr. D. Sabourin, at (613) 593-6936.

G. Yorke Slader  
Secretary  
National Energy Board  
473 Albert Street  
Ottawa, Ontario  
K1A OE5  
Telex No. 053 3791

Dated at Ottawa, Canada  
7 March 1983



APPENDIX III  
ORDER NO. RH-2-83

RULES AND PROCEDURES

1. In these Rules, "party" means TransCanada PipeLines Limited and any intervenor who has filed with the Secretary of the Board a written statement pursuant to paragraph 4 of Order No. RH-2-83.

2. At the Hearing of the application by TransCanada PipeLines Limited, the evidence shall be heard in the following order:

- (1) Rate Base and Cost of Service excluding Income Taxes and Return;
- (2) Income Taxes;
- (3) Return; and
- (4) Toll Design and Other Tariff Matters.

3. The Board shall hear all of the evidence on each of the items referred to in paragraph 2 of these Rules, item by item, and for that purpose the Board shall first hear all of the evidence of the Applicant in respect of one item and then shall hear the evidence of each of the intervenors in respect of the same item.

4. Upon the completion of the evidence on all items referred to in paragraph 2 of these Rules, the Board shall hear the oral argument of all parties.

5. Any party who wishes to obtain additional information from another party in respect of matters raised in filings made with the Board, may request in writing that such information be provided, and the party to whom the request is made shall, as soon as possible, either provide a written response to the request or refer the question to the Board under paragraph 7 hereof. In order to expedite the Hearing, such requests should be made on or before 15 April 1983. Copies of all requests and responses shall be filed as exhibits at the Hearing.

6. Any party receiving an information request from the Board shall respond on or before 29 April 1983 by filing with the Secretary of the Board thirty copies of the response, and shall file the information request and its response as exhibits at the Hearing.

7. If any question arises upon which a decision of the Board may be required, thirty copies of a notice of motion with respect thereto shall be filed with the Secretary of the Board, and one copy shall be served on each party to the Hearing and the motion shall be heard by the Board on a date to be fixed by it.

APPENDIX III  
(cont'd)

8. Any party who files a submission or written direct evidence in accordance with paragraphs 4, 7 or 8 of Order RH-2-83 or a notice of motion pursuant to paragraph 7 hereof, shall at the opening of the Hearing, file two copies of the same and provide proof of service thereof.

9. The order of appearances of parties and sequence of adducing evidence and conducting cross-examination will be announced by the Board on or before the opening of the Hearing.



ORDER NO. TG-4-83

IN THE MATTER OF the National Energy Board Act  
and the Regulations made thereunder; and

IN THE MATTER OF an application by TransCanada  
PipeLines Limited (hereinafter called "the  
Applicant") for certain Orders respecting  
tariffs and tolls pursuant to Sections 50, 51  
and 53 of the National Energy Board Act, filed  
with the Board under File No. 1562-T1-16.

BEFORE:

L.M. Thur )  
Presiding Member )

J.R. Jenkins ) on Tuesday, the 28th day  
Member ) of June 1983.

R.B. Horner, Q.C. )  
Member )

WHEREAS an application by the Applicant dated the 31st day of January, 1983, as amended by an application dated the 29th day of April, 1983 has been filed with the Board, inter alia, for orders under Sections 50, 51 and 53 of the National Energy Board Act fixing the just and reasonable tolls the Applicant may charge for or in respect of transportation of gas sold by the Applicant, and for transportation services rendered for Saskatchewan Power Corporation, Consolidated Natural Gas Limited, Gaz Métropolitain, inc., ProGas Limited, and Sulpetro Limited, and disallowing any existing tariffs or tolls or portions thereof that are inconsistent with the just and reasonable tolls so fixed, effective the 1st day of August, 1983:



AND WHEREAS the Board has heard the evidence and submissions relating to the said application at a public hearing which commenced on the 17th day of May, 1983.

IT IS ORDERED THAT:

1. The Applicant shall charge in respect of the transportation of gas sold by it and in respect of its T-Service and Transportation Service, the tolls specified in Schedule "A" hereto.

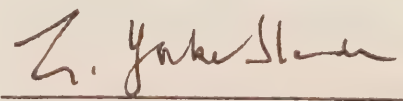
AND IT IS FURTHER ORDERED THAT:

2. The Applicant shall forthwith file with the Board and serve upon all parties to the hearing of this application new tariffs and tolls conforming with this Order.

3. Notwithstanding the filing of the new tariffs and tolls, the same shall remain suspended and be of no effect until the 1st day of August, 1983.

4. Those provisions of the Applicant's tariffs and tolls or any portions thereof, which are contrary to any provisions of the National Energy Board Act, or to any Order of the Board, including this Order, are hereby disallowed, such disallowance to be effective on the 31st day of July 1983.

NATIONAL ENERGY BOARD

  
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G. Yorke Slader,  
Secretary

TRANSCANADA PIPELINES LIMITED

Tolls for Canadian Sales, Transportation & T-Service  
Effective: 1 August 1983

Particulars	Schedules	Transportation Demand Toll (\$/10 <sup>3</sup> m <sup>3</sup> /mo)	Transportation Commodity Toll (\$/10 <sup>3</sup> m <sup>3</sup> )
<u>SALES SERVICE</u>			
<u>Saskatchewan Zone</u>	CD	140.04	1.513
	AOI-W		6.650
	AOI-S		4.231
	SGS		13.023
	PS		82.110
	TWS		36.930
<u>Manitoba Zone</u>	CD	244.40	2.750
	AOI-W		13.060
	AOI-S		9.432
	PS		82.110
	TWS		36.930
<u>Western Zone</u>	CD	402.21	4.622
	AOI-W		20.318
	AOI-S		19.108
	PS		82.110
	TWS		36.930
<u>Northern Zone</u>	CD	625.29	7.184
	AOI-NDA-W		34.832
	AOI-NDA-S		27.575
	AOI-SSMDA-W		27.075
	AOI-SSMDA-S		23.447
	PS		82.110
	TWS		42.220
<u>Eastern Zone</u>	CD	772.51	9.759
	AOI-W		35.832
	AOI-S-TCPL		29.784
	AOI-S-TQM		35.157
	ACQ		29.257
	PS		110.350
	TWS		43.990

T-SERVICE

<u>Gaz Métropolitain, inc.</u>	772.51	9.759
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TRANSPORTATION SERVICE

Saskatchewan Power Corporation

Bayhurst & Liebenthal	103.00	0.999
Success	76.62	0.693
Empress	112.04	1.104
Herbert	21.56	0.174

Consolidated Natural Gas

Herbert	223.78	2.525
Empress	274.15	3.111
<u>ProGas</u>	274.15	3.111
<u>Sulpetro</u>	811.63	9.374

CODE:	NDA	Northern Delivery Area
	SSMDA	Sault Ste. Marie Delivery Area
	W	Winter months of November to March inclusive
	S	Summer months of April to October inclusive
	TCPL	Applicable to sales off the TCPL system excluding sales at Sabrevois, Quebec
	TQM	Applicable to sales off the TQM system and sales off the TCPL system at Sabrevois, Quebec





OFFICE NATIONAL DE L'ÉNERGIE



ORDER NO. TG-5-83

IN THE MATTER OF the National Energy Board Act  
and the Regulations made thereunder; and

IN THE MATTER OF an application by TransCanada  
PipeLines Limited (hereinafter called "the  
Applicant") for certain Orders respecting  
tariffs and tolls pursuant to Sections 50, 51  
and 53 of the National Energy Board Act, filed  
with the Board under File No. 1562-T1-16.

BEFORE:

L.M. Thur )  
Presiding Member )

J.R. Jenkins ) on Tuesday, the 28th day  
Member ) of June 1983

R.B. Horner, Q.C. )  
Member )

WHEREAS an application dated the 31st day of January, 1983, as amended by an application dated the 29th day of April, 1983, has been made to the Board by TransCanada, inter alia, for orders under Sections 50, 51 and 53 of the National Energy Board Act fixing the just and reasonable tolls the Applicant may charge for or in respect of transportation of gas sold by the Applicant, and for transportation services rendered for Saskatchewan Power Corporation, Consolidated Natural Gas Limited, Gaz Métropolitain, inc., ProGas Limited, and Sulpetro Limited, and disallowing any existing tariffs or tolls or portions thereof that are inconsistent with the just and reasonable tolls so fixed, effective the 1st day of August, 1983:

AND WHEREAS the Applicant has requested:

- (a) an order for accounting and toll-making purposes which would allow the inclusion in the Applicant's deferral clause for "Transmission by Others" of the difference between (i) the actual charges included in the Applicant's cost of service under the Account "Transmission by Others" in respect of the Trans Québec & Maritimes Pipeline Inc. (hereinafter called "TQM") facilities less fixed charge revenues received in respect of sales by the Applicant to TQM for resale and (ii) the projected charges for "Transmission by Others" in respect of TQM less the fixed costs allocated to TQM sales together with carrying charges, computed monthly at an annual interest rate equal to the authorized rate of return on rate base, upon the balance in the account at the end of the month, with the balance in the deferral account, including carrying charges, to be amortized from time to time through adjustment in future tolls;
- (b) an order for accounting and toll-making purposes which would allow the inclusion in the Applicant's deferral account "Transmission by Others" of the differences between (i) the actual charged revenues for the CD demand volumes and (ii) the estimated amounts of such revenues as shown in Exhibit 111 (VJY-2) Final Revision together with carrying charges, computed monthly at an annual interest rate equal to the authorized

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rate of return on rate base, upon the balance in the account at the end of the month, with the balance in the deferral account, including carrying charges, to be amortized from time to time through adjustment in future tolls;

- (c) an order for accounting and toll-making purposes which would, to the extent that TransCanada is unable to recover in its tolls, rates, prices and other charges as established by a competent authority the toll as established from time to time by the Board, allow the Applicant to defer such unrecovered amounts together with carrying charges computed monthly at an annual interest rate equal to the prevailing authorized rate of return on rate base, such balance including carrying charges to be amortized from time to time through adjustments in future tolls;
- (d) an order for accounting and toll-making purposes, which, to the extent that certain costs in respect of the North Bay Shortcut facilities are not recovered in the current test year, will allow the inclusion by the Applicant in a deferral account of such amount together with carrying charges computed monthly at an annual interest rate equal to the prevailing authorized rate of return on rate base, and will allow the Applicant to amortize one-third of such amount in cost of service test years following the test year set out in the application, together with accrued carrying charges, and the

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inclusion in the test year of carrying charges at the rate indicated herein on the month-end balance of the deferral account;

- (e) an order for accounting and toll-making purposes which would allow the inclusion by the Applicant in a deferral account amounts paid by it in respect of income tax reassessments by Revenue Canada covering the years 1956 to 1977 inclusive, together with carrying charges, such balance including carrying charges thereon to be amortized from time to time through adjustments in future tolls;
- (f) an order for accounting and toll-making purposes which would, to the extent that the actual cost of gas used by the Applicant for company use and lost and unaccounted for volumes differs from the estimates upon which tolls as approved by the Board are based, allow the inclusion by the Applicant of such differences in a deferral account together with carrying charges computed monthly at an annual interest rate equal to the prevailing authorized rate of return on rate base, such balance including carrying charges to be amortized from time to time through adjustments in future tolls; and
- (g) an order of the Board approving the tariff filings contained in the application as amended and disallowing tariff provisions inconsistent therewith carrying charges computed monthly at an annual interest rate equal to the authorized rate of return on rate base, upon the balance in the account

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at the end of the month, with the balance in the deferral account, including carrying charges, to be amortized from time to time through adjustments in future tolls;

AND WHEREAS the Board by letters dated 1 and 18 February 1983 has directed TransCanada to address the issue of an appropriate zoning for all existing, proposed and future delivery points off the North Bay Shortcut.

AND WHEREAS the Board has heard the evidence and submissions relating to the said application at a hearing commencing on the 17th day of May, 1983. AND WHEREAS the Board, by Order No. TG-4-83 dated the 28th day of June 1983, has ordered the Applicant to file, in respect of the transportation of gas sold by it and in respect of its T-service and Transportation service, new tariffs and tolls conforming therewith, to be effective the 1st day of August, 1983;

IT IS ORDERED THAT:

1. The Applicant's request for an order which would allow the inclusion in the deferral account "Transmission by Others" of differences between (i) actual amounts for charges to be paid to TQM in respect of transportation of volumes on the facilities of TQM and (ii) the estimated amounts of such charges, together with carrying charges on the month-end balance in the deferral account calculated at a rate equal to one-twelfth of the authorized annual rate of return on rate base, is hereby denied as Order TG-3-82, paragraph 1(i), already allows such an inclusion to be made and no need for an additional order exists.

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2. Accordingly, the Applicant shall:

- (i) record in a deferral account differences referred to in paragraph 1, together with carrying charges on the month-end balance in the deferral account calculated at a rate equal to one-twelfth of the authorized annual rate of return on rate base, and
- (ii) submit the balance in said account for disposal by the Board in subsequent tolls proceedings.

3. The Applicant's request for an order effective the 1st day of August, 1983, for accounting and toll-making purposes, that would allow the inclusion in the deferral account "Transmission by Others" of the differences between (i) the actual charged revenues for the CD Demand Volumes and (ii) the estimated amounts of such revenues as shown in Exhibit 111 (VJY-2) Final Revision with carrying charges computed monthly at an annual interest rate equal to the prevailing authorized rate of return on rate base is hereby denied and accordingly Board Order TG-3-82 is amended as specified in Amending Order AO-1-TG-3-82.

4. The Applicant's request for an order, for accounting and toll-making purposes, which would allow, to the extent that TransCanada is unable to recover in its tolls, rates, prices and other charges as established by a competent authority the toll as established from time to time by the Board, the inclusion in a deferral account of such unrecovered amounts, together with carrying charges computed monthly at an annual interest rate equal to the authorized rate of return on rate base, is hereby denied.

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5. The Applicant's request for an order which would allow the inclusion in a deferral account amounts paid by it in respect of income tax reassessments by Revenue Canada covering the years 1956 to 1977 inclusive together with carrying charges calculated at the authorized rate of return on rate base is hereby approved.

6. Accordingly, the Applicant shall, for accounting and toll-making purposes, effective the 1st day of August, 1983:

- (i) record in a deferral account amounts paid by it in respect of an income tax reassessment by Revenue Canada covering the years 1956 to 1977 inclusive, together with carrying charges calculated at the authorized rate of return on rate base.
- (ii) credit to said account any refunds including interest resulting from the Applicant's appeals.
- (iii) submit the balance in said account for disposal by the Board in subsequent tolls proceedings.

7. The Applicant's request for an order which would allow the inclusion in a deferral account of differences between (i) actual lost and unaccounted for gas volumes and (ii) estimated amounts of such volumes together with carrying charges computed monthly at an annual interest rate equal to the prevailing authorized rate of return on rate base, is hereby denied.

8. The Applicant's request for an order for accounting and toll-making purposes, which, to the extent that certain costs in respect of the North Bay Shortcut facilities are not recovered in the current test year, will allow the inclusion by the Applicant

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in a deferral account of such amount together with carrying charges computed monthly at an annual interest rate equal to the prevailing authorized rate of return on rate base, and will allow the Applicant to amortize one-third of such amount in cost of service test years following the test year set out in the application, together with accrued carrying charges, and the inclusion in the current test year of carrying charges, at the rate indicated herein, on the month-end balance of the deferral account, is hereby approved.

9. Accordingly, the Applicant shall:

- (i) commencing the 1st of August, 1983, for accounting and toll-making purposes, in respect of certain of the approved costs attributed to the North Bay Shortcut facilities which will not be recovered during the test year commencing 1 August 1983, record during each month of the said test year in a deferral account  $1/12$  of the amount of \$45,583,280; and
- (ii) amortize the amount referred to in (i), using the straight line method of amortization, over the three year period commencing on 1 August 1984, and amortize carrying charges computed on a monthly basis on the unamortized balance.

NATIONAL ENERGY BOARD



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G. Yorke Slader,  
Secretary

OFFICE NATIONAL DE L'ÉNERGIE

IN THE MATTER OF an application by TransCanada  
PipeLines Limited (hereinafter called "the  
Applicant") for certain Orders respecting  
tariffs and tolls pursuant to Sections 50, 51  
and 53 of the National Energy Board Act, filed  
with the Board under File No. 1562-T1-16.

R.B. Horner, Q.C. )  
Member )

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AND WHEREAS TransCanada requested, by an application dated 31 January 1983, as amended by an application dated 29 April 1983, a number of Orders including an Order which will allow the inclusion in the Applicant's deferral account "Transmission by Others" of the differences between (i) the actual charged revenues for the CD demand volumes and (ii) the estimated amounts of such revenues as shown in Exhibit 111 (VJY-2) Final Revision together with carrying charges, computed monthly at an annual interest rate equal to the authorized rate of return on rate base, upon the balance in the account at the end of the month, with the balance in the deferral account, including carrying charges, to be amortized from time to time through adjustment in future tolls;

AND WHEREAS the Board has by Order No. TG-5-83 denied the said request;

IT IS ORDERED THAT:

Board Order TG-3-82 be changed, altered and varied by revoking, effective 1 August 1983, paragraph 1(ii) thereof.

NATIONAL ENERGY BOARD

  
\_\_\_\_\_  
G. Yorke Slader,  
Secretary

AO-1-TG-3-82

## TRANSCANADA PIPELINES LIMITED

Comparison of Components of Rate of Return  
Previously Authorized, Applied for and Approved

	Previously Authorized			Applied For			Approved		
	Capital Structure %	Cost Rate %	Cost Component %	Capital Structure %	Cost Rate %	Cost Component %	Capital Structure %	Cost Rate %	Cost Component %
Funded Debt	60.31	13.65	8.23	57.28	14.36	8.23	57.45	14.36	8.25
Unfunded (Pre- funded) Debt	<u>(1.32)</u>	13.65	<u>(.18)</u>	<u>.07</u>	13.50	<u>.01</u>	<u>1.87</u>	12.50	<u>.23</u>
Total Debt Capital	58.99	13.65	8.05	57.35	14.36	8.24	59.32	14.30	8.48
Preferred Share Capital	13.01	10.39	1.35	12.65	10.44	1.32	12.68	10.44	1.32
Common Equity	<u>28.00</u>	16.00	<u>4.48</u>	<u>30.00</u>	16.50	<u>4.95</u>	<u>28.00</u>	15.00	<u>4.20</u>
	<u>100.00</u>			<u>100.00</u>			<u>100.00</u>		
Overall Rate of Return			<u>13.88</u>			<u>14.51</u>			<u>14.00</u>





WEIGHTED AVERAGE COST OF DEBT CAPITAL  
FOR THE YEAR ENDING JULY 31, 1984

(\$000)

	Average Principal Outstanding (Gross Proceeds)	Net Proceeds %	Average Principal Outstanding (Net Proceeds)	Financial Charges	Cost Rate
<u>First Mortgage Pipe Line Bonds</u>					
5 5/8% due 1985 (U.S.)	4,580	99.01	4,535	294	
7 1/8% due 1987 (U.S.)	30,161	95.51	28,807	2,453	
9 1/4% Series A due 1992	48,671	98.20	47,795	4,502	
9 1/4% Series B due 1992	20,271	98.20	19,906	1,875	
8 7/8% Series A due 1993	34,667	97.46	33,786	3,077	
8 7/8% Series B due 1993	5,542	97.50	5,403	492	
16% due 1996 (U.S.)	481,764	99.28	478,295	78,550	
16 3/4% due 1997 (U.S.)	158,202	99.27	157,047	25,753	
16 1/2% due 2007 (Sterling)	54,708	96.53	52,810	8,456	
	<u>838,566</u>		<u>828,384</u>	<u>125,452</u>	15.14%
<u>Sinking Fund Debentures</u>					
10% Series A due 1990	24,275	97.26	23,610	2,428	
9 3/4% Series B due 1990	30,065	95.37	28,673	2,931	
9% Series C due 1991	25,868	97.49	25,219	2,328	
8 7/8% Series D due 1992	58,671	97.84	57,404	5,207	
9% Series E due 1993	65,059	97.32	63,315	5,855	
11 1/2% Series F due 1995	38,326	97.19	37,249	4,407	
9.60% Series G due 1997	58,221	97.92	57,010	5,589	
18% Series H due 1996	75,000	99.19	74,393	13,500	
	<u>375,485</u>		<u>366,873</u>	<u>42,245</u>	11.51%
<u>Eurodollar Notes</u>					
17.75% Notes due 1988 (U.S.)	89,965	97.64	87,842	16,374	
16% Notes due 1989 (U.S.)	118,078	97.68	115,339	19,680	
16% Notes due 1992 (U.S.)	119,216	97.73	116,510	19,249	
	<u>327,259</u>		<u>319,691</u>	<u>55,303</u>	
<u>Subordinated Debentures</u>					
5.85% due 1987	25,079	95.40	23,925	1,467	
5.60% due 1987 (U.S.)	10,687	95.38	10,193	708	
	<u>35,766</u>		<u>34,118</u>	<u>2,175</u>	
	1,577,076		1,549,066	225,175	6.37%
Amortization of Debt Discount & Expense				2,953	
Gain on Sinking Fund Redemptions				(6,912)	
Bond Premium Adjustment				(373)	
Foreign Exchange Loss				1,664	
TOTAL FUNDED DEBT	<u>1,577,076</u>		<u>1,549,066</u>	<u>222,507</u>	14.36%



Functionalization and Distribution of Cost of Service

	<u>Total</u>	<u>Cost of Gas</u>	<u>Miscellaneous Transmission</u>	<u>Metering</u>	<u>Transmission</u>	
					<u>Fixed</u>	<u>Variable Fuel Uses + Other</u>
Cost of Gas Sold	\$2,821,383,450	\$2,821,383,450				
Development Costs Transferred to TQM	(2,759,647)				\$(2,759,647)	
Transmission by Others	170,957,516		\$151,004		108,813,557	\$61,992,956
Operation and Maintenance	275,143,586			\$4,146,176	104,184,244	166,813,166
Depreciation	98,835,971			862,921	97,973,050	
Taxes Other Than Income Taxes	30,315,223			118,102	30,197,121	
Income Taxes	61,623,686			1,041,070	60,582,616	
Miscellaneous Deferred Items	16,682,288				16,682,288	
Other Operating Income	(5,470,552)				(91,560)	(5,378,992)
Miscellaneous Revenue	<u>(8,461,715)</u>	<u>(2,717,410)</u>	<u>(827)</u>	<u>(136,364)</u>	<u>(4,082,643)</u>	<u>(1,524,471)</u>
Cost of Service excluding Return	\$3,458,249,806	\$2,818,666,040	\$150,177	\$6,031,905	\$411,499,026	\$221,902,659
Return @ 14.00%	<u>363,289,312</u>			<u>2,937,611</u>	<u>360,351,701</u>	
Cost of Service	\$3,821,539,118	\$2,818,666,040	\$150,177	\$8,969,516	\$771,850,727	\$221,902,659
North Bay Shortcut Credit	<u>(45,583,280)</u>				<u>(45,583,280)</u>	
Net Cost of Service	<u>\$3,775,955,838</u>	<u>\$2,818,666,040</u>	<u>\$150,177</u>	<u>\$8,969,516</u>	<u>\$726,267,447</u>	<u>\$221,902,659</u>









